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SEPTEMBER 1ST–7TH 2007 www.economist.com

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Politics this week

Aug 30th 2007
From The Economist print edition

At least 52 people were killed in fighting in the holy city of Karbala between **Iraq's** two biggest Shia militias—the Mahdi Army loyal to a cleric, Muqtada al-Sadr, and the Supreme Iraqi Islamic Council, which follows the Hakim family. At least a dozen other people were killed as fighting spread to other towns, including Baghdad and Kufa, another holy city. Mr Sadr told his militia to "suspend its activities" for up to six months, though it was unclear what that would entail.

Iran's president, Mahmoud Ahmadinejad, said that American power in Iraq was fast collapsing and that Iran was ready to fill the vacuum. George Bush accused the Iranian government of fomenting instability and supplying weapons to Iraqi insurgents.

The **Saudi** interior ministry said it would set up a special 35,000-strong force to protect its country's oil facilities against possible terrorist attacks. Separately, the Saudi government banned an influential London-based pan-Arab newspaper, *al-Hayat*, which is owned by a son of the crown prince, apparently because it criticised some government departments and refused to heed the information ministry's orders.

A Saudi company run by a half-brother of Osama bin Laden said it would secure 1,500 square kilometres (580 square miles) of land in **Yemen** and 600 square kilometres in **Djibouti**, on opposite sides of the Red Sea, to build two cities that would eventually be connected by a bridge 27km (17 miles) long, linking Africa and Asia.

Working it out

In another blow to General Pervez Musharraf, the president, **Pakistan's** Supreme Court upheld the right of Nawaz Sharif, a former prime minister, to return to Pakistan from exile. Mr Sharif expects to return in mid-September. General Musharraf seems close to finalising a power-sharing arrangement with another exiled former prime minister, Benazir Bhutto. See article

A United Nations report showed that **Afghanistan's** opium production had climbed sharply. It is now producing twice the amount it did just two years ago, and accounts for 93% of heroin on global markets. In northern Afghanistan the area under poppy has fallen, but poppy-sowing has risen sharply in the south, notably in Helmand province. There is increasing evidence of direct involvement in the business by Taliban insurgents.

The Taliban released 12 of the 19 **South Koreans** they had been holding hostage and promised to free the others. A South Korean spokesman said the Taliban had agreed to the releases on condition that South Korea removes its soldiers from Afghanistan by the end of the year as scheduled, and stops missionary activities by South Korean citizens in Afghanistan.

Two bombs in the southern Indian city of **Hyderabad** killed more than 40 people. Another 19 bombs were discovered and disabled. The state government blamed extremist Islamist groups based in Pakistan and Bangladesh. But there was no claim of responsibility. See article

EPA

Japan's beleaguered prime minister, Shinzo Abe, shuffled his cabinet, bringing in faction leaders and political heavyweights from the Liberal Democratic Party. His standing in the opinion polls recovered somewhat. See article

Up in flames

AFP

Just weeks ahead of a snap general election, the Greek government led by Costas Karamanlis faced accusations of incompetence in its handling of **Greece's** worst forest fires in living memory, which may have been started by arsonists. At least 63 people have died. See article

Abdullah Gul was elected president of **Turkey**, at last overcoming the resistance of the fiercely secular army. But a new political battle seemed likely as the mildly Islamist Justice and Development (AK) Party began drafting a new constitution that may limit the power of the generals and redefine Turkish identity. See article

Russia's prosecutor-general, Yuri Chaika, announced the arrest of ten suspects in last October's murder of an outspoken Russian journalist, Anna Politkovskaya. Several were current or former policemen and intelligence operatives. But Mr Chaika said the plot's masterminds were enemies outside Russia seeking to "destabilise the situation"—a thinly veiled reference to Boris Berezovsky, an ex-oligarch living in exile in London. See article

Hard graft

Brazil's Supreme Court indicted 40 people, including José Dirceu and other senior former leaders of the ruling Workers' Party, on criminal charges of corruption over the *mensalão* scandal, a bribes-for-votes scheme revealed two years ago. See article

A judge in the United States ruled that **Manuel Noriega** can be extradited to France to face money-laundering charges. Panama's former dictator will be released later this month after spending 17 years in an American jail for drug-trafficking.

Opponents of **Bolivia's** leftist president, Evo Morales, staged strikes to protest against his attempt to oust four of the five constitutional court justices.

Cuban officials insisted that **Fidel Castro** continues to convalesce from surgery. No new images of the Cuban leader have been shown since early June, prompting a new crop of rumours in Miami that he might have died.

Colombia said it would seek to extradite Yair Klein, a former Israeli army colonel who trained right-wing paramilitaries in the 1980s, after his arrest in Russia.

Goodbye to all that

EPA

Alberto Gonzales resigned as America's attorney-general after months of criticism about his roles in the sacking of nine federal prosecutors and a domestic eavesdropping programme. George Bush said the "good name" of his long-time confidant had been "dragged through the mud". See article

America is the most heavily armed country in the world, according to a report. Some 270m of the world's 875m **firearms** are in the country; nine guns for every ten people. See article

It emerged that Larry Craig, a senator from Idaho, pleaded guilty to **"disorderly conduct"** in a men's lavatory at Minneapolis airport in June. An opponent of gay marriage, Mr Craig tried to impress the policeman who arrested him by whipping out his Senate card and declaring "What do you think about that?" See article

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Business this week

Aug 30th 2007
From The Economist print edition

Stockmarkets endured another rocky week as investors speculated about the extent of the financial industry's exposure to defaults in America's mortgage market. Meanwhile, the minutes of the latest Federal Open Market Committee meeting revealed that officials had discussed whether the tumult in the credit markets would require a "policy response". The statement after the meeting, however, emphasised inflationary risks.

Jean-Claude Trichet warned analysts against assuming that the **European Central Bank** would raise interest rates at its next policy meeting. It had signalled such a move, to tackle inflationary pressures, before the recent market turbulence. The ECB's president said all factors would be considered when the central bank makes its decision. See article

Consumer confidence in America fell more sharply in August than in any month since the aftermath of Hurricane Katrina two years ago, according to the Conference Board. The GfK index of German consumer confidence also dropped, for the first time in six months.

Sale now on

Home Depot agreed to change the terms of a deal it had reached in June with a **private-equity** consortium that is buying its wholesale supply business, including dropping the selling price by around $2 billion to $8.5 billion and guaranteeing a $1 billion loan. It is the first private-equity "mega-deal" to be renegotiated amid the crunch in the credit markets.

In a transaction that makes it the world's third-biggest computer-maker, **Acer**, based in Taiwan, said it would buy America's **Gateway** for $710m. The acquisition is a blow to China's Lenovo. It had wanted to expand its business in Europe by purchasing Packard Bell. But in an announcement made shortly before the deal with Acer, Gateway gave notice that it intended to "exercise its right of first refusal" to buy Packard Bell's parent company under the terms of an agreement with its owner. See article

Google announced the retirement of its chief financial officer. George Reyes took the job in 2002, since when Google's revenue has increased to $10.6 billion (from $439.5m) and it has become a darling of the stockmarket. In February 2006, however, comments by Mr Reyes on the limits to Google's growth in paid-search advertising caused its share price to slide by 7% in just one day. He is one of the few executives to leave the company. See article

Altria confirmed it would spin off **Philip Morris International**, its tobacco business outside America. More details will be provided in January. The group sold its stake in Kraft Foods earlier this year.

Cooling off

Heineken reported a 25% rise in operating profit for the first half of the year, compared with a year earlier, to *euro*906m ($1.2 billion). The Dutch brewer was much concerned with the weather. A warm spring in Europe helped sales, but "mixed weather" in Europe at the beginning of the second half meant that the outlook was "challenging".

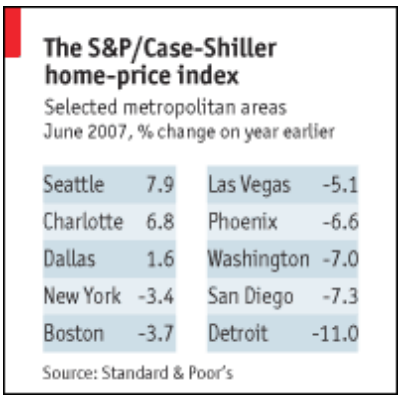
Whole Foods Market, America's biggest organic-food retailer, said it had completed its acquisition of **Wild Oats Markets**, its nearest rival. The deal had been thought to be in jeopardy after the Federal Trade Commission tried to block the sale, arguing it would hurt competition among specialist retailers in natural and organic groceries. However, a judge recently denied the regulator's request to halt the transaction.

US Steel agreed to pay $1.1 billion for **Stelco**, the last big steelmaker that remained in Canadian hands. The acquisition is the latest in a wave of consolidation in the global steel industry over the past few years. US Steel, based in Pittsburgh, was itself the target of takeover speculation earlier this year.

In a move reminiscent of Russia's approach to renegotiating energy-production deals with foreign companies, **Kazakhstan** halted work on a project in its vast Kashagan oilfield, citing “environmental concerns”. A consortium led by Italy's Eni is developing the field. Separately, **KazMunayGaz**, Kazakhstan's state energy company, doubled its oil- refining capacity by agreeing to acquire a 75% equity interest in **Rompetrol**, owner of two refineries in Romania.

Grey clouds over the sunbelt

House prices in America fell by 3.2% in the year to the second quarter, according to the S&P/Case-Shiller national home-price index. It was the largest decrease in the period covered by the index, which runs back to 1987. On a month-by-month basis, in June metropolitan areas in California and the south-west continued to see some of the steepest declines in property prices. The housing market in the Pacific north-west, however, remained buoyant.



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KAL's cartoon

Aug 30th 2007
From The Economist print edition

Illustration by Kevin Kallaugher

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The internet

Who's afraid of Google?

Aug 30th 2007
From The Economist print edition

The world's internet superpower faces testing times

Get article background

RARELY if ever has a company risen so fast in so many ways as Google, the world's most popular search engine. This is true by just about any measure: the growth in its market value and revenues; the number of people clicking in search of news, the nearest pizza parlour or a satellite image of their neighbour's garden; the volume of its advertisers; or the number of its lawyers and lobbyists.

Such an ascent is enough to evoke concerns—both paranoid and justified. The list of constituencies that hate or fear Google grows by the week. Television networks, book publishers and newspaper owners feel that Google has grown by using their content without paying for it. Telecoms firms such as America's AT&T and Verizon are miffed that Google prospers, in their eyes, by free-riding on the bandwidth that they provide; and it is about to bid against them in a forthcoming auction for radio spectrum. Many small firms hate Google because they relied on exploiting its search formulas to win prime positions in its rankings, but dropped to the internet's equivalent of Hades after Google tweaked these algorithms.

And now come the politicians. Libertarians dislike Google's deal with China's censors. Conservatives moan about its uncensored videos. But the big new fear is to do with the privacy of its users. Google's business model (see article) assumes that people will entrust it with ever more information about their lives, to be stored in the company's "cloud" of remote computers. These data begin with the logs of a user's searches (in effect, a record of his interests) and his responses to advertisements. Often they extend to the user's e-mail, calendar, contacts, documents, spreadsheets, photos and videos. They could soon include even the user's medical records and precise location (determined from his mobile phone).

More JP Morgan than Bill Gates

Google is often compared to Microsoft (another enemy, incidentally); but its evolution is actually closer to that of the banking industry. Just as financial institutions grew to become repositories of people's money, and thus guardians of private information about their finances, Google is now turning into a custodian of a far wider and more intimate range of information about individuals. Yes, this applies also to rivals such as Yahoo! and Microsoft. But Google, through the sheer speed with which it accumulates the treasure of information, will be the one to test the limits of what society can tolerate.

It does not help that Google is often seen as arrogant. Granted, this complaint often comes from sour-grapes rivals. But many others are put off by Google's cocksure assertion of its own holiness, as if it

merited unquestioning trust. This after all is the firm that chose “Don't be evil” as its corporate motto and that explicitly intones that its goal is “not to make money”, as its boss, Eric Schmidt, puts it, but “to change the world”. Its ownership structure is set up to protect that vision.

Ironically, there is something rather cloudlike about the multiple complaints surrounding Google. The issues are best parted into two cumuli: a set of “public” arguments about how to regulate Google; and a set of “private” ones for Google's managers, to do with the strategy the firm needs to get through the coming storm. On both counts, Google—contrary to its own propaganda—is much better judged as being just like any other “evil” money-grabbing company.

Grab the money

That is because, from the public point of view, the main contribution of all companies to society comes from making profits, not giving things away. Google is a good example of this. Its “goodness” stems less from all that guff about corporate altruism than from Adam Smith's invisible hand. It provides a service that others find very useful—namely helping people to find information (at no charge) and letting advertisers promote their wares to those people in a finely targeted way.

Given this, the onus of proof is with Google's would-be prosecutors to prove it is doing something wrong. On antitrust, the price that Google charges its advertisers is set by auction, so its monopolistic clout is limited; and it has yet to use its dominance in one market to muscle into others in the way Microsoft did. The same presumption of innocence goes for copyright and privacy. Google's book-search product, for instance, arguably helps rather than hurts publishers and authors by rescuing books from obscurity and encouraging readers to buy copyrighted works. And, despite Big Brotherish talk about knowing what choices people will be making tomorrow, Google has not betrayed the trust of its users over their privacy. If anything, it has been better than its rivals in standing up to prying governments in both America and China.

That said, conflicts of interest will become inevitable—especially with privacy. Google in effect controls a dial that, as it sells ever more services to you, could move in two directions. Set to one side, Google could voluntarily destroy very quickly any user data that it collects. That would assure privacy, but it would limit Google's profits from selling to advertisers information about what you are doing, and make those services less useful. If the dial is set to the other side and Google hangs on to the information, the services will be more useful, but some dreadful intrusions into privacy could occur.

The answer, as with banks in the past, must lie somewhere in the middle; and the right point for the dial is likely to change, as circumstances change. That will be the main public interest in Google. But, as the bankers (and Bill Gates) can attest, public scrutiny also creates a private challenge for Google's managers: how should they present their case?

One obvious strategy is to allay concerns over Google's trustworthiness by becoming more transparent and opening up more of its processes and plans to scrutiny. But it also needs a deeper change of heart. Pretending that, just because your founders are nice young men and you give away lots of services, society has no right to question your motives no longer seems sensible. Google is a capitalist tool—and a useful one. Better, surely, to face the coming storm on that foundation, than on a trite slogan that could be your undoing.

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Mosques in the West

Islam, the American way

Aug 30th 2007

Why the United States is fairer to Muslims than “Eurabia” is

AFP

Get article background

IN PITTSBURGH, a Turkish group, pious but peaceful, decides to rethink its plans for an Islamic centre after an angry public hearing. In Clitheroe, a town in northern England, a plan to turn an ex-church into a mosque wins planning approval after seven failed bids. In Austria a far-rightist, Jörg Haider, grabs headlines by proposing that no mosques or minarets should be built in the province of Carinthia, where he is governor. In Memphis, Tennessee, Muslims manage to build a large cemetery despite local objections to their burial customs.

On the face of it, there is something similar about all these vignettes of inter-faith politics in the Western world. They all illustrate the strong emotions, and opportunistic electoral games, that are surfacing in many countries as Muslim minorities, increasingly prosperous and confident, aspire to build more mosques and other communal buildings. All these stories show the way in which whipped-up fears of a “clash of civilisations” can inflame the humdrum politics of a locality.

But there is a big transatlantic difference in the way such disputes are handled (see article). Although America has plenty of Islam-bashers ready to play on people's fears, it offers better protection to the mosque builders. In particular, its constitution, legal system and political culture all generally take the side of religious liberty. America's tradition of freedom is rooted in the First Amendment, and its stipulation that “Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof...” Another recourse for embattled minorities of any kind is “Section 1983” of America's civil-rights legislation, which allows an individual who is deprived of a legal or constitutional right to sue the official responsible.

More important than the letter of the law is an ethos that leans in favour of religious communities which are “new” (to their neighbours) and simply want to practise their faith in a way that harms nobody. In America the tone of disputes over religious buildings (or cultural centres or cemeteries) is affected by everyone's presumption that if the issue went to the highest level, the cause of liberty would probably prevail.

The European Convention on Human Rights, and the court that enforces it, also protect religious freedom. But the convention is not central to European politics in the way the Supreme Court and constitution are in America. The European court disappointed advocates of religious liberty when it upheld Turkey's ban on the headscarf in universities.

The risk in the garages

Legal principles aside, there are pragmatic reasons for favouring the American way. Most mosques in the Western world pose no threat to non-Muslim citizens; but a few do pose such a danger, because of the hatred that is preached in them. In such cases police forces generally have the legal armoury they need to step in and make arrests if necessary. Quashing extremism will surely be easier in an atmosphere where the founding and running of mosques is an open, transparent business. As Nicolas Sarkozy, the French president, once said: “It is not minarets which are dangerous; it is basements and garages which hide secret places of worship.”

Will someone please tell the Swiss? Politicians from two of the biggest political parties are seeking to insert a sentence into the country's constitution forbidding the building of minarets. Measures of this sort exemplify the bigotry that lies behind much of the opposition to mosque building in Europe. Christians in the West have long complained about how hard it is for their brethren in Muslim lands to build churches. Fair enough. But they should practise what they preach.

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France's hyperactive president

The world according to Sarkozy

Aug 30th 2007
From The Economist print edition

Some modest suggestions for an immodest but promising new president

AFP

Get article background

BOUNDLESS energy and vaulting ambition carried Nicolas Sarkozy to the presidency of France. Now that he has had just over 100 days in office (including a hyperactive busman's holiday in New Hampshire), it is a good time to take stock of where all this energy may be leading.

A useful place to start is with that holiday. It would have been unthinkable for Mr Sarkozy's predecessor to have vacationed in America. In a long career, but with added vehemence after George Bush's invasion of Iraq, Jacques Chirac put opposition to American *hyperpuissance* at the heart of French foreign policy. A world of one superpower was a dangerous place, said Mr Chirac, and he behaved as if taking America down a peg or two was part of France's vocation.

Mr Sarkozy seems wonderfully free of this particular hang-up. If Mr Chirac looked upon America with a mixture of envy and disdain, Mr Sarkozy appears genuinely fond of the place and its people. He broke off from his holiday in New Hampshire for a lunch with Mr Bush, and made a warmer occasion of it than Britain's frosty Gordon Brown had made of his own first meeting as prime minister with Mr Bush.

Better still, Mr Sarkozy seems unafraid of the ideas that waft across the Atlantic. In the Elysée under its new management, “Anglo-Saxon capitalism” is no longer a term of abuse or a synonym for beggar-thy-neighbour. Mr Sarkozy accepts that France might even learn a thing or two from America about entrepreneurship and job creation. America, for its part, can hardly believe its luck. Even the *Wall Street Journal*, which habitually wrinkles its nose at the faintest whiff of garlic, gave a rave review to a speech this week in which Mr Sarkozy said he could not let Iran acquire a nuclear bomb, would not budge on Israel's security and would step up France's military contribution in Afghanistan (see article).

What a delicious aroma. Now serve the beef

In short, Mr Sarkozy has been saying many appetising things. But he is of course saying them in circumstances that make it simpler for France to be America's ally. In the end, Mr Chirac's decision to stay out of Iraq served France well. Now that the Iraqi debacle has made American *puissance* look rather less *hyper*, Mr Sarkozy can afford to treat the chastened superpower with magnanimity. Besides, making speeches is easy. The real test will come when he turns words into deeds.

At home Mr Sarkozy has already moved to liberalise the rigid French labour market, for example by reducing taxation on overtime hours. This week he chose the summer think-in of the country's main business organisation to outline the second phase of his economic programme. But his credibility as a reformer has been marred by his attacks on the independence of the European Central Bank. He needs to stop blaming France's economic problems on the strong euro. For France to prosper, its governments must also learn to resist pulling on the powerful levers they have for interfering at a micro-level in business (see article). Despite 20 years of privatisation, the government has kept big stakes in many industries. Mr Sarkozy ought to set these firms free to make their own decisions.

As for foreign policy, it is hard for middling powers to make a splash in the world. Tony Blair's idea was to stick close to the superpower. France is now enjoying the advantage of having taken the opposite tack. Untainted by Iraq, France may be able to help in places where America and Britain are unwelcome. France grabbed glory for the freeing of the Bulgarian nurses on death row in Libya. Bernard Kouchner, the French foreign minister, has tried to mediate between Hizbullah and pro-Western forces in Lebanon, and offers to do the same in Iraq. Though nothing has yet come of these efforts, they are welcome—especially if they are pursued, as Mr Kouchner promises, in an unGaullist spirit of pragmatism and modesty.

There are, however, two much bolder and more certain ways in which Mr Sarkozy could make a difference. If he is the fresh thinker he claims to be, why should he not return France to the military command of NATO, from which De Gaulle extracted it in the 1960s? France has the forces and the contacts (in Africa, for instance) to fortify the Western alliance. By staying out, it slows missions down because of the need to devise a special bolt-on arrangement for France each time NATO acts. France has also resisted making NATO the place where the big transatlantic issues can be discussed. How excellent it would be if Mr Sarkozy's sweet talk this week brought not just more soldiers for Afghanistan but a reversal of that policy.

Mr Sarkozy should also drop his objection to full Turkish membership of the European Union. Bringing a thriving Muslim democracy of 75m people into the Western fold might one day transform relations with Islam as a whole. No final decision needs to be made for 15 years. And yet by ruling out full membership from the outset of his term, Mr Sarkozy is sending a needlessly discouraging message to the Turks at the very moment when they are most in need of reassurance. Although he has softened his tone, he remains adamantly against Turkish entry. But these are early days in what promises to be an exciting presidency, for France and the world.

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Malaysia at 50

Tall buildings, narrow minds

Aug 30th 2007
From The Economist print edition

After 50 years, Malaysia should stop treating a third of its people as not-quite-citizens

TopFoto

Get article background

THE government of Malaysia has laid on all sorts of grand pageantry this weekend, to celebrate the 50th anniversary of the Malay peninsula's independence from Britain. There is much to celebrate. Living standards and access to education, health services, sanitation and electricity have soared during those five decades of sovereignty. The country's remarkable modernisation drive was symbolised, nine years ago, by the completion of the Petronas twin towers, in Kuala Lumpur, then the world's tallest buildings.

Yet there will be a hollow ring to the festivities. Malaysia's 50th birthday comes at a time of rising resentment by ethnic Chinese and Indians, together over one-third of the population, at the continuing, systematic discrimination they suffer in favour of the majority *bumiputra*, or sons of the soil, as Malays and other indigenous groups are called. There are also worries about creeping “Islamisation” among the Malay Muslim majority of what has been a largely secular country, and about the increasingly separate lives that Malay, Chinese and Indian Malaysians are leading. More so than at independence, it is lamented, the different races learn in separate schools, eat separately, work separately and socialise separately. Some are asking: is there really such a thing as a Malaysian?

The pro-*bumiputra* discrimination was laid down in the country's first constitution, in 1957, to ease Malays' fears of being marginalised by the Chinese and Indian migrants. These had come, supposedly temporarily, to work in the tin mines and plantations but were settling permanently and increasingly dominating business and the professions. The perks were extended greatly after race riots in 1969. Malays get privileged access to public-sector jobs, university places, stockmarket flotations and, above all, government contracts. The most notable result, as with South Africa's similar policy of “black economic empowerment”, has been “encronyment”—the enrichment of those well connected to the United Malays National Organisation (UMNO), the party that has led all governments since independence. Malays as a whole, like other races, have got richer but the gap between the Malay haves and have-nots has widened. The corruption and waste these policies engender seem to have got worse in recent years.

As criticism has grown, UMNO's leaders have resorted ever more frequently to growling that nobody should question the “social contract”. This is a reference to the metaphorical deal struck between the races at independence, in which the Malays got recognition that the country was basically theirs, while the Chinese and Indians were granted citizenship. The veiled threat of violence lurking behind calls to uphold the social contract was made explicit during last year's UMNO conference, at which one delegate talked of being ready to “bathe in blood” to defend Malay privileges and the education minister, no less,

brandished a traditional Malay dagger.

The hypocritical Malay dilemma

The social contract may once have seemed necessary to keep the peace but now it and the official racism that it is used to justify look indefensible: it is absurd and unjust to tell the children of families that have lived in Malaysia for generations that, in effect, they are lucky not to be deported and will have to put up with second-class treatment for the rest of their lives, in the name of “racial harmony”. When the mild-mannered Abdullah Badawi took over as prime minister from the fire-breathing Mahathir Mohamad in 2003, there were hopes of change for the better. Mr Badawi preached a moderate, “civilisational” Islam and pledged to crack down on corruption.

Four years on, corruption, facilitated by the pro-Malay policies, is unchecked. The state continues to use draconian internal-security laws, dating back to the colonial era, to silence and threaten critics. UMNO continues to portray itself to Malays as the defender of their privileges yet tries to convince everyone else that it is the guarantor of racial harmony. One commentator this week gently described this as a “paradox”. Hypocrisy would be a better word.

The damage caused by this state racism is ever more evident. Malaysia's once sparkling growth rate has slipped. Racial quotas and protectionism are scaring away some foreign investors. While Malaysians celebrate having done rather better than former British colonies in Africa, they must also notice that South Korea, Taiwan and their estranged ex-spouse Singapore have done much better still. The economic consequences alone justify ending Malaysia's official racism. Even without them, it would still be just plain wrong.

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The Bush presidency

Keeping the lights on

Aug 30th 2007
From The Economist print edition

What should—but probably won't—happen after the welcome departure of Alberto Gonzales

Reuters

Get article background

THE *Sun*, a feisty tabloid, once ran a headline asking sarcastically whether the last person to leave Britain would turn out the lights. A similar taunt could be made about the White House. One by one, the president's men are leaving: Donald Rumsfeld, Karl Rove and now Alberto Gonzales, the hapless attorney-general. The Democrats scent more expulsions, more Bushies yearning to spend time with their families. The Republicans talk of witch hunts. The image of George Bush tottering around an empty building—empty, that is, except for mad old Uncle Dick in the cellar—is hard to resist.

Hard to resist, but also sad. This presidency still has nearly 17 more months to run. With Iraq, Iran, a global credit crunch and so much more to deal with, the world needs an engaged White House, not one peopled only by ghosts and newly hired defence lawyers. Both Mr Bush and the ruling Democrats in Congress would be wise to find a way out of this mess.

None of this is to mourn the departure of Mr Gonzales. As with Mr Rumsfeld, the tragedy lay not in his ouster, but in the length of time Mr Bush put up with an incompetent crony. At least the former defence secretary hid his uselessness under an impressive, pugnacious veneer. By contrast, Mr Gonzales was simply not up to the job—something that became depressingly obvious during the recent hearings called to discover whether he had sacked nine federal prosecutors for political reasons. Worse, his main qualification—a friendship with the president that went back to Texas—was an especially unhealthy one for the Justice Department.

More than any other man in the cabinet, the attorney-general is there to hold the government to account. Presidents have always abused this: Dwight Eisenhower appointed one of his campaign strategists to the job, Jack Kennedy his brother. It is hard, though, to think of one quite as supine as Mr Gonzales. It is unclear whether the Democrats will prove that Mr Rove bullied Mr Gonzales into firing the federal prosecutors for political reasons. But the first Latino attorney-general will go down in history as the lawyer who sanctioned the deeply unAmerican side of Mr Bush's war against terror—the one where Geneva Conventions are “quaint”, torture is a matter of definition and Guantánamo Bay is just dandy.

A time to talk

One welcome consequence of Mr Gonzales's going is that it has already placed in question the wisdom of letting the government's chief prosecutor sit in the cabinet (a problem shared by other countries,

including Britain). Could that debate be elided with the more immediate priority of preventing the American government from falling still further apart? To give one idea of the chaos, Mr Gonzales's job is only one out of several positions that are unfilled at the Justice Department.

In theory there is an obvious truce to be struck: Mr Bush should appoint a less partisan attorney-general (perhaps, let us be bold, a conservative Democrat). In return, the Democrats would call the dogs off. The two sides could then work together on the farm bill and an energy bill. For the increasingly lonely president, such a strategy might just make sense. The congressional Democrats, however, are still mad with revenge: there is talk of a special prosecutor. They might usefully study both the Clinton impeachment saga and their own current poll ratings, which are even lower than the president's, to see the folly of such a course. But they probably won't.

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On British youth, Claus Schenk von Stauffenberg, Los Angeles, Heathrow, clichés

Aug 30th 2007
From The Economist print edition

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The yoof of yesterday

SIR – Bagehot is right to note that the state of British youth is troubling but hardly new (August 18th). A glance through newspaper archives shows that little has changed in a century of media panic on the matter. In February 1901 a leader column in the *Pall Mall Gazette* observed: "The constable in certain districts is looked upon as the common enemy whom it is right to kick and beat whenever that can be done with safety." The day after bank holiday riots in 1898, the *Daily Mail* ran the alarming headline: "He ate a policeman". Readers had to turn to an inside page to discover that "he" was a crocodile. The *Mail* also reported in the same year that a "South London cowboy" was brought before a court for lassoing cyclists, and a young boy and girl broke into their school and "completely wrecked the furnishings".

Perhaps this only proves that the youth of today has become a little less creative about its destruction.

Nicholas Mayes
Glasgow

SIR – I grew up in New York in the 1970s and 1980s and never worried about random physical violence. So when I lived in a posh bit of London I was surprised to find myself regularly worrying about my safety. Not about murder, but assault, particularly at pub closing times. In some of the nightclubs I frequented, even in my swanky neighbourhood, I sensed a seething potential for violence that I never felt in New York.

The alcohol-fuelled looks in the eyes of young men hinted that, while they would prefer to meet a woman for the night, a fight would be just as good to blow off steam. My experience made me wonder whether, in addition to representative government and a love of liberty, the British also bequeathed a violent tendency to us Americans.

Jonathan Twombly
New York

Updating the plot

SIR – The letter from Francis de Marneffe castigating Claus Schenk von Stauffenberg and other German officers for waiting until 1944 before attempting to assassinate Hitler was a bit misleading (Letters, August 18th). Stauffenberg turned against Hitler in 1941. He was motivated not by the fact that Germany was losing the war, which could hardly be foreseen in 1941, but rather by the systematic genocide of Jews in eastern Europe and the brutal occupation there.

Moreover, a resistance movement existed within the army before Stauffenberg's attempt. General Ludwig Beck resigned in 1938 and founded a group of senior officers with the intention of getting rid of Hitler. Some of these men later joined the Stauffenberg group and around 200 people who were involved in the plot of July 20th 1944 were killed in its aftermath. Stauffenberg was not as atypical as some might presume.

Dirk Franke
Munich

SIR – Why did it take Stauffenberg so long to try to kill Hitler? Maybe it was the political capital Hitler had

stored up in Germany for seeming to right the “wrongs” of the Versailles settlement, or maybe it was the ruthlessly efficient police-state that protected the dictator. Once the war had started, Germany saw itself assailed by enemies, most of all the Soviet Union. To many Germans, Hitler was the only hope of keeping those assailants at bay. Attempting to kill the leader of a nation at war is no small endeavour. More important, Germany is a country with a tradition of basic good government and a profound respect for its rulers. Hitler positioned himself in this historic tradition, so that anyone who questioned his authority would be putting himself at odds with the nation's moral foundation.

The allies supercharged Hitler's position by insisting on Germany's unconditional surrender. Stauffenberg and his group agonised over their dilemma. It will be interesting to see how Tom Cruise will act this out in his new film.

Adrian Dunskus
Munich

New towns

SIR – It was hard to fathom exactly why you chose to compare Cerritos, a Los Angeles suburb, with Cleveland and Baltimore (“Where the grass is greener”, August 18th). Cerritos is a 50-year-old city of 50,000; the others are many times that size and age. The older cities' investment in “museums and other grand projects” may not have enticed businesses, but they have helped to lure back professionals. Urban regeneration is quite a different process from constructing shopping-malls in suburbs; Baltimore wouldn't exchange its Inner Harbour for Cerritos's 27 car dealerships, no matter what revenue they brought in.

George Wittenberg
Baltimore

Happy at Heathrow

SIR – I thought your leader on Heathrow was unfair (“Hell on wings”, August 11th). The airport does an amazing job in handling 50% more passengers than it was designed for. Its employees are strained to the limit, but with British aplomb, courtesy and good humour, they get the job done. I use Heathrow regularly and enjoy the hustle and bustle and people-watching.

Gerry Furney
Mayor
Port McNeill, Canada

SIR – Have you travelled through Gatwick? It is packed from the first glimmers of dawn. Your taxi driver dumps you at the lowest level of the terminal so he doesn't have to spend endless time in line. Then, when you finally get through the farcical nonsense of shoe-removing and having your water-bottle confiscated, you enter purgatory. No drinking fountains, toilets where even men have to queue, expensive food and a struggle to find somewhere to sit.

Brian Pasby
Floral City, Florida

As the saying goes

SIR – Thank you for the timely reminder that the human impact on the planet is putting some clichés on the same extinction list as the dodo (“Plus ça change? Not quite”, August 11th). As you note, expressions like “plenty more fish in the sea” sadly no longer hold true. You could add that uncontrolled logging is making “can't see the wood for the trees” redundant, and that climate change calls into question the idea that “every cloud has a silver lining”.

Unsustainable practices threaten not only language, but entire societies that speak them. However, the currency of one cliché is increasing. As we begin to accept the reality of climate change, there really is “no time to waste”.

Gerd Leipold
Executive director

Greenpeace International
Amsterdam

SIR –“Proud owners of silicon implants scoff at the notion that beauty is only skin-deep”? Ouch. Silicone implants would be nicer.

Andrew Slater
Sevenoaks, Kent

SIR – While you devoted half a page to the faded reality of the old maxims, you ignored their euphony. Out of range of a wireless connection may be the only way to be out of people's minds these days, but it is not nearly as catchy. I would not update my clichés for all the bras in China.

Thomas Papworth
London

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Capital punishment in America

Revenge begins to seem less sweet

Aug 30th 2007 | BOULDER, COLORADO, AND HUNTSVILLE, TEXAS
From The Economist print edition

AP

Americans are losing their appetite for the death penalty. Texas is the exception

JOSEPH NICHOLS did not fight the guards at his execution, but he did not co-operate, either. He had to be lifted onto the trolley on which he was to die, and then strapped down. A needle was thrust into his arm. Asked if he had any last words, he said, “Yes, yes I do,” and then swore at a guard. There followed a gurgling sound as his lungs collapsed and, for about a minute, an animal-like noise issued from the back of his throat. After that came silence, broken only by a few people in the room clearing their throats. Then a doctor pulled out his stethoscope and pronounced the condemned man dead. The execution had taken six minutes.

Mr Nichols was one of 22 people put to death in Texas this year (as this was written, two more were scheduled to die). His story was fairly typical. He had been convicted for the murder of a delicatessen clerk during a robbery in 1980. It had not been much of a heist; he said his accomplice “got some change” but he got nothing. The victim was killed by a single bullet. It was unclear which of the two men had fired it, but under Texan law it made no difference, since both admitted to shooting at him. Mr Nichols was 20 when he arrived on death row and 45 when he died. His accomplice was executed in 1995.

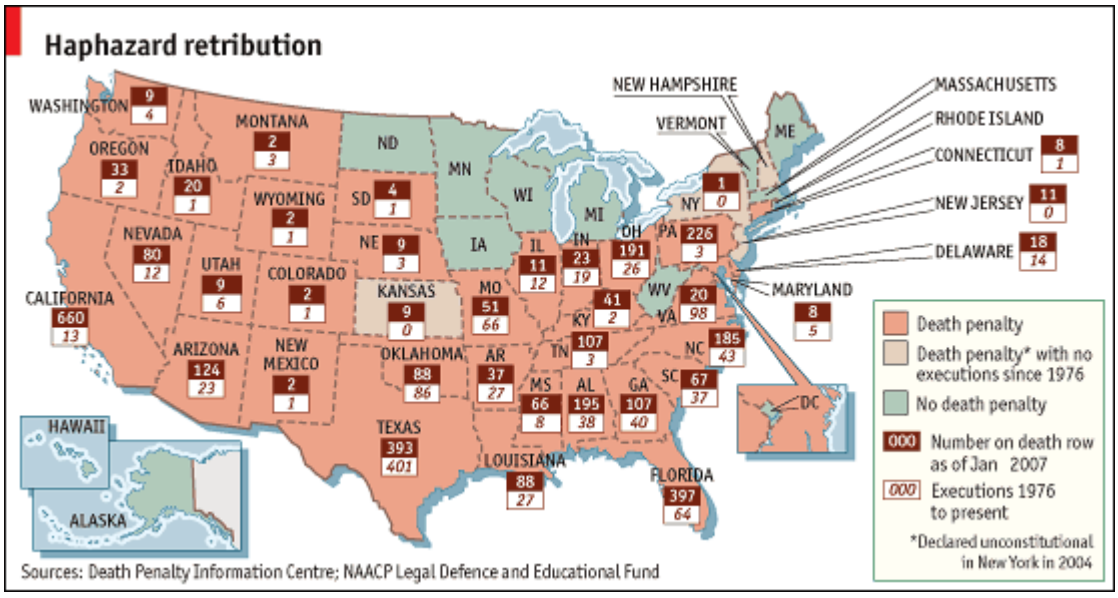
Capital punishment is hardly controversial in Texas. Nearly three-quarters of Texans approve of it. In June the governor signed a law that would make some people who rape children eligible for it. But Texas is special. It now accounts for nearly half of all executions in America, of which there have been over 1,000 since 1976. During the six years in which George Bush was governor, the state put 152 people to death. No other governor in America's recent history except his successor, Rick Perry, has overseen so many executions.

Elsewhere, the death penalty is increasingly controversial. The questions of whether and how to impose it are primarily for the states, not the federal government, but Mr Bush's attorney-general, Alberto Gonzales, who resigned this week, tried to have more Americans executed. He failed, and any successor who wants to arrest the abolitionist trend is likely also to be frustrated. Since 2000, 12 out of 50 states have suspended the death penalty. Three of those (Tennessee, Florida and Missouri) have this year reversed that suspension and one (New Jersey) has moved towards formal abolition.

Unlike most Texans, the people of New Jersey have strong doubts about the death penalty. Most would prefer to see murderers locked up for ever. Their representatives are listening: no one has been executed in New Jersey since the 1960s. A state Senate committee has approved a bill to end capital punishment

formally; the full legislature is expected to pass it later this year. “If New Jersey holds another execution, I'll eat the body,” vows Michael Radelet of the University of Colorado.

For a few years in the 1970s, America joined most other rich countries in revoking the death penalty. This was not done by passing a law. Rather, the Supreme Court decided, in 1972, that capital punishment was unconstitutional, since it broke the ban on “cruel and unusual” punishment. In 1976 a slightly different set of justices reversed the court's ruling and handed the issue back to the states.



Since then, the states have gone their own ways (see map). Twelve have no death penalty on their statute books. Of the 38 that do, some apply it often, some never. Texas has executed 401 people since 1976, the entire north-eastern region only four. By and large, the way the penalty is applied mirrors local preferences.

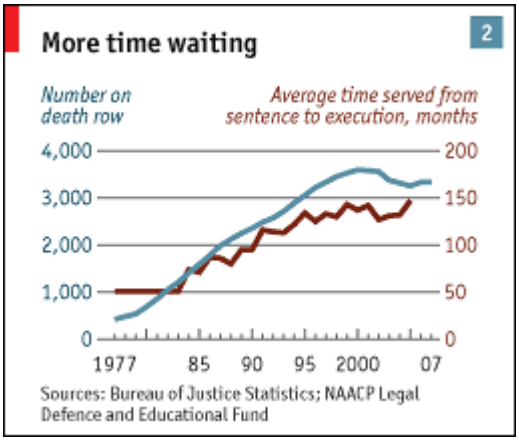
Asked by pollsters whether they think murderers should be put to death, two-thirds of Americans say yes, down from four-fifths in 1994. If asked to choose between the death penalty and a life sentence with no chance of parole, however, they are evenly divided. Life that means life is relatively new. Before the 1990s, juries used to worry that if they did not send the man in the dock to his death, he would be freed to kill again after a decade or two. Now nearly every state allows the option of life without parole (Texas introduced it only in 2005). For the first time last year, a Gallup poll reported that a slim plurality of Americans found this option preferable to a capital sentence (48-47%).

Campaigners against the death penalty have been making their case state by state, with little fanfare but some success. The number of executions has fallen by 46% from its modern peak in 1999, to 53 last year (see chart 1). Two-thirds of states executed no one last year, and only six carried out multiple executions. The number of death sentences has fallen even more sharply, by 60% from a peak of about 300 a year in the mid-1990s.

The arguments for and against capital punishment have evolved. Thirty years ago, says Mr Radelet, Americans supported the death penalty for three main reasons: deterrence, religious conviction (an eye for an eye) and taxes (the idea of spending public money to feed and clothe murderers for the rest of their lives seemed outrageous). This last argument no longer applies. It is now far more expensive to execute someone than to jail him for life; in North Carolina, for instance, each capital case costs $2m more. Ordinary inmates need only to be fed and guarded. Those on death row must have lawyers arguing expensively about their fate, sometimes for a decade or more (see chart 2). The system of appeals has grown more protracted because of fears that innocent people may be executed. Few would argue that such safeguards are not needed, but their steep cost gives abolitionists a new line of attack.

Martin O'Malley, the governor of Maryland, says that, but for the death penalty, his state would have been $22.4m richer since

1978. That money would have paid for 500 extra policemen for a year, or provided drug treatment for 10,000 addicts. “Unlike the death penalty, these are investments that save lives and prevent violent crime,” he told the state legislature in February, in a speech urging it to repeal capital punishment in Maryland. He failed by the narrowest of margins: a state Senate committee was deadlocked by five votes to five, preventing the bill from advancing.



A similar attempt got further in Colorado, where Paul Weissman, a state representative, proposed that the money saved by abolishing the death penalty should be spent on a “cold cases” unit to investigate unsolved murders. His bill made it through a committee, but was gutted.

Abolitionists have had more luck, at least temporarily, by arguing that lethal injection, the form of execution most widely adopted, is excruciatingly painful. The cocktail used generally contains sodium thiopental (to anaesthetise the condemned man), pancuronium bromide (to paralyse his muscles) and potassium chloride (to stop his heart). Some studies suggest that prisoners are sometimes inadequately sedated, and perhaps die in silent agony from asphyxiation.

Since last year, ten states have halted executions because of fears that lethal injection may be cruel, and therefore unconstitutional. In Florida, for example, Governor Jeb Bush (the president's brother) suspended executions after a fiasco last December in which the executioner missed a vein and pumped the drugs into muscle. The condemned man took 34 minutes to die, during which he grimaced and writhed, suggesting acute agony.

The problem can, however, be fixed. In Florida a committee has recommended 37 ways to make lethal injection more “humane”. This has satisfied Mr Bush's successor, Charlie Crist, who has now started signing death warrants. The governor of Tennessee, having stopped all executions in February, also let them resume in May.

For many, the death penalty holds a deep emotional appeal. It is “an expression of society's ultimate outrage”, says Bob Grant, a former prosecutor and now a professor at the University of Denver, Colorado. Some acts, he argues, are so heinous that no other punishment is appropriate. One example he cites is the case of Gary Davis, the only man executed in Colorado since the 1960s. Mr Davis kidnapped, tortured, sexually assaulted and murdered a young mother in 1986. His guilt was not in doubt. Mr Grant prosecuted him and watched him put to death.

Mr Grant says his views on the death penalty have nothing to do with religion, but many who agree with him do so for religious reasons. A prosecutor in Texas cites Genesis 9:6: “Whoso sheddeth man's blood, by man shall his blood be shed.” This, he says, is “pretty compelling”.

Opponents of capital punishment tend to respond by saying that juries, being human, err. If you find you have jailed the wrong man, you can free and compensate him. If you have executed him, however, it is too late. Jurors increasingly balk at imposing the death penalty, even when they are convinced of a defendant's guilt. Governors, who must review every capital conviction, are also becoming hesitant. In 2000, for example, after journalism students dug up evidence that a man about to be executed was innocent, Illinois's governor, George Ryan, commuted all death sentences in the state and imposed a moratorium that still stands, despite challenges.

Since 1973, 124 Americans have been released from death row because of doubts about their guilt; and of the 7,662 sentenced to death between 1973 and 2005, 2,190 had their sentence or conviction overturned. But in no case has it been legally proven—for example, with DNA evidence—that an innocent person has been executed. Mr Grant says it simply does not happen. “The fact that some people are released from death row is proof that the safeguards work,” he says. Abolitionists suspect he is wrong. The Death Penalty Information Centre, a lobby group, lists eight executed men for whom there is “strong evidence of innocence”.

Ruben Cantu, for example, was put to death in 1993 for murder during a robbery. He was convicted because Juan Moreno, a second victim he allegedly shot nine times but failed to kill, identified him at the trial. But Mr Moreno now says his identification was made under pressure from the police, and was wrong. The prosecutor accepts that the man he sent to his death “may well have been innocent” (though

an investigation in Texas in June rejected this).

Deterrence works—or does it?

Although DNA testing has yet to show that an innocent American has been executed, it has proved beyond question that miscarriages of justice occur. Widely reported exonerations have alerted the public to the uncomfortable fact that juries are sometimes biased, that the police sometimes lie and that snitches often do.

But what if executions save lives by deterring potential murderers? That would “greatly unsettle moral objections to the death penalty”, argue Cass Sunstein and Adrian Vermeule, two law professors. Abolitionists say there is no proof that capital punishment deters. Death-penalty enthusiasts say several studies suggest it does.

A crude way of trying to settle which camp is correct is to compare murder rates in jurisdictions with and without capital punishment. This offers no support for the notion of deterrence. In 2005 there were 46% more murders per head in states with the death penalty than in those without it, and that gap has widened since 1990. The murder rate in the United States as a whole, moreover, is far higher than in western Europe, where capital punishment is a thing of the past.

Yet many other factors influence murder rates—unemployment, the probability of getting caught, the availability of guns, the proportion of young men in the population and so on. More sophisticated studies attempt to control for such factors.

Joanna Shepherd, of Emory School of Law in Atlanta, for example, looked at monthly data for executions and murders between 1977 and 1999 and controlled for age, sex, race and labour-market conditions. She found that each execution deterred on average three murders, and that swift executions deterred even more. Other researchers at Emory found that each execution deterred a startling 18 murders. In another study Naci Mocan of the University of Colorado and Kaj Gittings of Cornell University found that each execution deterred five murders, and that each time a death sentence was commuted, five more murders were committed.

The trouble with all these studies is that they draw firm conclusions from sparse data. America has executed on average fewer than 40 people a year since 1976. Even if each execution had a strong deterrent effect, it would be hard to detect against the background of a murder toll that has fluctuated from 24,703 in 1991 to 15,522 in 1999, before rising again to 16,692 in 2005. Researchers' calculations are further distorted by the fact that one state dominates the data. “Any regression study will be primarily a comparison of Texas with everywhere else,” writes Ted Goertzel in *Skeptical Enquirer* magazine.

The chance of being executed in America is so remote that it cannot plausibly be a significant deterrent, argues Steven Levitt, of the University of Chicago. Even if you are on death row—a fate over 99% of murderers escape—the chance of being put to death in any given year is only about 2%. Members of a crack gang studied by one of Mr Levitt's colleagues had a 7%-a-year chance of being murdered. For them, death row would be safer than the street.

There are other arguments against the death penalty. Some opponents complain of a racial bias in its application. This is disputed. Mr Radelet thinks the race of the perpetrator makes little difference, but juries respond more vengefully when the victim is white. In a study of murders in California, he found that those who killed non-Hispanic whites were twice as likely to be sentenced to death as those with darker victims.

AP

Not all Texans back Texecutions

Capital punishment is not about to end in America. But, as voters lose their appetite for it, states will use it less or even give it up completely. How closely America follows the global trend towards abolition will depend less on academic arguments than on emotional ones.

After Joseph Nichols's execution, the victim's family said they were glad that justice had been done, but angry that it had taken nearly 30 years. Colleen Shaffer, the victim's daughter-in-law and a social worker by training, said that at the time of the murder she had thought the death penalty “maybe wasn't such a good idea”. Now she is a strong supporter.

In Boulder, Colorado, Howard Morton tells a different story. His son Guy disappeared while hitch-hiking in the Arizona desert in 1975, when he was 18. For more than a decade Mr Morton continued to search for his son. Then, in 1987, a retired deputy sheriff read about Guy in a newspaper, and recalled finding a skeleton in the desert in the year he had disappeared. The medical examiner had mislabelled it as belonging to a Hispanic woman, but dental records proved it was Guy. He had been found with a broken knife blade in his chest. The murderer was never caught.

Mr Morton discovered that over 30% of murders in America are unsolved, like his son's. He found out, too, that the states spend millions of dollars putting a handful of murderers to death while detection is under-financed and thousands of murderers walk free. He became an ardent abolitionist. Anyone close to a murder victim “wants the son of a bitch who did it to die,” he says. “But you've got to catch the son of a bitch. That's more important.”

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The Bush administration

Going, going, Gonzales

Aug 30th 2007 | WASHINGTON, DC
From The Economist print edition

Reuters

The resignation of George Bush's attorney-general leaves the administration in a pretty ruinous state

BETTER late than never. On August 27th, with his reputation in ruins and the Justice Department in chaos, Alberto Gonzales finally resigned as attorney-general. The immediate cause of his departure was the firing of nine federal prosecutors. The bigger cause was that he embodied most of the things that Mr Bush's critics find intolerable about his presidency.

Mr Gonzales's departure produced predictable cheers from Democrats. More significant was the reaction of his fellow Republicans. Nobody except Mr Bush seemed to have a good word to say for America's first Hispanic attorney-general. For his part, Mr Gonzales said that he was glad to have lived the American dream (he was one of eight children of an itinerant immigrant labourer). He said that even his worst days at the Department of Justice were better than his father's best days.

The battle over Mr Gonzales was one of the most bitter of Mr Bush's second term, inflaming relations between Congress and the White House, eating up weeks of congressional time and leaving the Department of Justice a dysfunctional shell, with several of its top posts empty and the professional staff more demoralised than at any time since Watergate.

Why did the attorney-general prove such a lightning rod? Mr Gonzales is a polite and inoffensive man. He has moderate views on affirmative action and abortion. His various appearances before congressional committees resembled nothing so much as the clubbing of a baby seal. But “Fredo”, as the president liked to call him, was at the centre of two of Mr Bush's most controversial policies.

The first was the politicisation of the federal government. Republicans have long complained that the federal government is stuffed full of dyed-in-the-wool lefties who habitually ignore or subvert Republican policies. The Bush administration did more than complain: it increased the number of political jobs by 12% across the government and boosted the number of political jobs that do not require legislative confirmation by 33%.

The danger of this is that the federal government will degenerate into an arm of the Republican Party. This danger is particularly acute with the Justice Department, whose first duty is to implement the law as impartially as possible. Mr Gonzales raised hackles from the first because he was so close to the White House. His decision to fire nine federal prosecutors in 2006 suggested that he might be trying to cajole

others into pursuing Republican policies. And his shifting explanations for his decision—from his insistence that he fired them for incompetence to his later descent into amnesia—sealed his fate.

Mr Bush was also determined to give himself the maximum possible latitude in dealing with terrorists. As the president's legal counsel during his first term, Mr Gonzales gave the green light to the Guantánamo prison camp, secret CIA prison camps, the wiretapping of American citizens and the use of torture. He even described some of the Geneva Conventions as “quaint”. Mr Gonzales was not the architect of those policies—that honour probably belongs to Dick Cheney and his then chief counsel, David Addington—but he gave them his imprimatur. And his faltering performance as attorney-general provided the left with a chance of revenge.

Farewell to the Texas Raj

Mr Bush now has the task of finding a new attorney-general. Several names are already circulating in Washington: Michael Chertoff, the secretary of homeland security; Larry Thompson, a senior vice-president at PepsiCo; Ted Olson, a former solicitor-general; Orrin Hatch, a senator. But it is a measure of the difficulty of the decision that the White House did not produce a name immediately.

Mr Bush wants to preserve as much of his anti-terrorism machinery as possible—particularly a surveillance programme that needs to be reauthorised again in five months. He hates the idea of Congress deciding who should get a job in his administration. But his options are limited. Whoever he chooses will face tough confirmation hearings in a Democratic-controlled Congress that has already feasted on Mr Gonzales's flesh—and will then have barely a year to rebuild a dysfunctional department.

Mr Gonzales's departure marks the end of a strange era in Washington politics: the Texas Raj. Mr Bush rode into town in 2001 surrounded by people who had known each other for years in Austin, who were fiercely loyal to “43”, and who had little liking for the customs of the Potomac. But now they have almost all gone, the victims of time (Dan Bartlett), excessive partisanship (Karl Rove, the president's chief adviser, who resigned two weeks ago) and incompetence (Harriet Miers and Mr Gonzales). The only remaining members of the original posse are Margaret Spellings, the secretary of education, and Mr Bush himself. The Bush White House is now largely run by Washington insiders such as Joshua Bolten, his chief of staff, and Ed Gillespie.

But might Mr Gonzales's departure also mark the beginning of a new era of good feeling and reconciliation? Some people certainly think so. The departure of Messrs Rove and Gonzales has removed two of the Democrats' top targets, the argument goes, and the ascendancy of Mr Bolten in the White House creates the possibility of at least some co-operation between White House and Congress. Both parties have an interest in getting the farm bill and the energy bill passed; the Democrats have a wider interest in not appearing to be obstructionist. Mr Bush now has an opportunity to revamp his reputation by adopting a more emollient style.

Yet there are endless problems with this rosy scenario. Mr Cheney remains entrenched in the vice-president's office, along with Mr Addington and other hard-liners. The Democrats are determined to get their revenge for six years of brutal treatment at the hands of the Republicans. They will undoubtedly use the confirmation of a new attorney-general to do as much harm to the Bush administration as possible. They may also continue to harass Mr Gonzales for possible perjury during his hearings. There is a strong likelihood that they will demand the appointment of a special prosecutor in exchange for confirming a new attorney-general. This will ensure months of painful and embarrassing legal inquiries.

Mr Bush also has precious little political capital left, even with his own side, and certainly not enough to relaunch his presidency. The Gonzales fiasco has dealt yet another serious blow to his reputation. Mr Bush (“the decider”) prides himself on his ability to pick good men and then allow them to get on with things. But Mr Gonzales was a lightweight crony who was out of his depth. Mr Bush also prides himself on his loyalty to his subordinates. But this loyalty has persuaded him to back friends long after they have become liabilities.

Messrs Gonzales and Rove and the rest of the Texas posse now have the luxury of spending their retirements in their home state. Mr Bush has no choice but to spend the next 17 months in Washington. He is not in for a pleasant time.

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The latest census figures

A bit richer, but a bit sicker

Aug 30th 2007 | BALTIMORE
From The Economist print edition

Health care is a bigger problem than poverty in America

WITH an election looming, even the driest documents can spark fury. Hillary Clinton expressed “outrage” at the news contained in the Census Bureau's latest report on income, poverty and health insurance in the United States, which was released on August 28th. Barack Obama said it represented “a betrayal of the ideals we hold as Americans”. John Edwards, reviving a well-worn theme, said it confirmed that there are “two Americas”. To anyone not running for president, however, the report contained both good news and bad.

The good news is that the average American is a little better off, and the proportion of Americans who are poor has dwindled a little. Real median household income rose by 0.7% from 2005 to 2006, to $48,201. And the official poverty rate fell from 12.6% to 12.3%. The bad news is that the number and proportion of Americans who lack health insurance continued to climb, from 44.8m (15.3%) to 47m (15.8%).

Together, these numbers hardly represent the disaster leading Democrats say they do, but neither are they cause for unrestrained glee. Median household income is still below its peak in 1999, and has grown more slowly than income per head, as the rich have gained more than those in the middle. Confusingly, even as median incomes rose, median earnings for full-time workers fell by about 1% between 2005 and 2006. The explanation is that more people are working longer hours.

This lends itself to the sound-bite that Americans are working longer hours for lower wages, but that may be misleading. It is not clear that the same people are being paid less for the hours they work. Rather, it may be that more unskilled people are starting to work full-time instead of part-time or not at all, and therefore bringing down the average, says Gary Burtless of the Brookings Institution, a think-tank. The census data also fail to take account of George Bush's generous tax cuts, which have boosted take-home pay. On the other hand, they are too old to reflect the fallout from this year's market turmoil, which could be grave.

The poverty figures are both less accurate and more hopeful. It sounds awful to say that 36.5m Americans are living in poverty. But “poverty” in America, as defined by the Census Bureau, does not mean destitution. A typical poor American lives in a three-bedroom house with a car, air-conditioning and two televisions. His children actually eat more meat than rich kids do. And he receives substantial benefits that the census bizarrely excludes from its calculations.

Americans are deemed poor if their pre-tax income falls below a certain threshold—for example, $20,614 for a family of four. By this measure, the proportion of Americans who are poor is no better today than it was in the 1970s. But this is nonsense. The census ignores non-cash benefits such as government health insurance, food stamps and subsidised housing. It also ignores the earned-income tax credit, a wage subsidy for the working poor that is reckoned to be one of America's most effective anti-poverty measures. On the day the census report appeared, Michael Bloomberg, New York's mayor and a possible independent presidential candidate, called for a huge expansion of the earned-income tax credit and a serious re-think of how poverty is measured.

This week's gloomiest news concerns health insurance. As medical costs soar, more firms are opting not to provide their staff with coverage. The government provides insurance for the poor and the elderly through monster programmes called Medicaid and Medicare. But that still leaves a big hole in the safety net, through which a swelling crowd of Americans is falling. Many states have tried to stitch up the hole by expanding Medicaid to include people who are not quite poor, and by enrolling more children in the federally funded State Children's Health Insurance Programme (SCHIP).

This is expensive, however. On August 17th the Bush administration imposed new restrictions to curb

costs. Several states allow children to join SCHIP if their family income is as much as 250% of the poverty line. But under the new rules, states will have to demonstrate that 95% of children with family incomes below 200% of the poverty line are enrolled before they can raise the bar to 250%. Whereas it makes sense to try to reach the poorest first, the 95% target is unattainable, says John Colmers, the secretary of health in Maryland. Poor families are often too disorganised to fill in forms, and many are illegal aliens shy of any contact with officialdom.

The uninsured can still see a doctor by going to a hospital emergency room. But, as a glance at the crowded waiting area of the Johns Hopkins hospital in Baltimore reveals, that usually means a long wait. The uninsured often “don't seek help until they are really sick,” says Ed Beranek, a director at the hospital. “By the time they arrive, that cold has turned into pneumonia.” For lack of timely preventive measures, the uninsured get sicker than they need to and cost more to treat. That extra cost is then passed on to everyone else who uses the hospital.

The politicians agree that the system is dysfunctional, but disagree on how to fix it. Democratic presidential candidates are pushing for universal coverage largely through greater public spending. The Republicans want to tinker with the current system to make private insurance more affordable. Rudy Giuliani, the Republican front-runner, says people should be able to buy insurance from any state, not just their own. That should make the market more competitive. Mitt Romney, another Republican, says that individuals should be allowed to buy health insurance with pre-tax dollars. (Currently, and unfairly, only employer-provided health insurance gets this tax break.) Critics note, however, that increasing the subsidy will surely stoke yet more health-care inflation.

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Gun control in Pennsylvania

Up in arms

Aug 30th 2007 | PHILADELPHIA
From The Economist print edition

AP

Why tighten the rules right in hunting season?

THE American constitution declares that “the right of the people to keep and bear arms shall not be infringed.” Nor, it seems, should it be suspended, even for a computer upgrade. At least, that's what many Pennsylvania gunshop-owners and hunters think. State police have been working towards a badly needed upgrade for the old Pennsylvania Instant Check System (PICS) since 2001. The database, which contains criminal and juvenile-delinquency records and mental-health information, allows gun-sellers to conduct immediate background checks on buyers. Gun sales will be temporarily suspended while the computers are brought up to date.

The upgrade had been set to take place over four days, starting on September 2nd, because research showed that September gun sales were slowest during the first week of the month, which also marks the beginning of hunting season. But sportsmen's groups, gun dealers and some state legislators have hit the roof. Labour Day weekend is a peak shopping moment for camouflage gear and boots, if not for guns; next week's planned promotions and sales will be difficult to postpone, and business will presumably just flow away to neighbouring states. Joseph Scarnati, the president of the state Senate, has condemned the shutdown as back-door gun control by “liberals from Philadelphia”.

Edward Rendell, the Democratic governor and former mayor of Philadelphia, retorted that this was “hogwash” and “the worst kind of political grandstanding”. But he conceded that the timing was unfortunate. The upgrade could not take place over the summer because of the avalanche of background checks on teachers and child-care workers before the start of the school year. The system is also used by state courts, law-enforcement agencies, the immigration service and the Megan's Law registry that keeps track of sex offenders. Mr Rendell agreed to create an ad hoc committee, made up of sportsmen, police and legislative and administrative appointees, to discuss alternatives. They came up with three: a seamless transition with no shutdown at all, a shutdown in October or a shutdown in early January.

Mr Rendell rejected all these, claiming they would be too costly for the taxpayer. It was clear to him that there would never be an ideal time to shut down the system for a bit. The hiatus will therefore take place as planned, but over three days rather than four.

Opponents have redirected their firepower. Two dozen gun-dealers have filed suit, and are hoping the Commonwealth Court will grant a last-minute injunction to postpone the upgrade. A hearing is scheduled for August 31st. The gun-dealers say the system can be upgraded without taking it offline completely. Or, they suggest, how about doing the work at night?

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Political scandal

Unhappy Larry

Aug 30th 2007 | WASHINGTON, DC

A strange way to stop terrorism

AP

The Craigs meet the press

WHEN a man denies three times that he is gay, the obvious response is “Who cares?” But when the man in question is a United States senator, the television cameras circle. Larry Craig, a Republican from Idaho, felt obliged this week to assert his heterosexuality after it emerged that he had pleaded guilty to “disorderly conduct” in a lavatory at Minneapolis airport in June.

Mr Craig was arrested after apparently making advances to an undercover policeman. The police say they were investigating complaints that men were having sex with each other in the airport lavatories. An undercover officer was stationed in a cubicle. He testified that Mr Craig sat down in the cubicle next door and made gestures under the partition indicating, the officer said, that he wanted to have sex. Mr Craig denies this, and says he pleaded guilty to the lesser of two charges in the hope—mistaken, he now says—that the issue would go away.

Many of his Republican colleagues are abandoning him, either because they disapprove of infidelity (Mr Craig is married) or because they frown on homosexuality. A number of Republicans in Congress called for Mr Craig's resignation, and he was forced to give up posts on a Senate committee and Mitt Romney's presidential campaign. Democratic activists, meanwhile, gloated. Since Mr Craig has voted against allowing gay marriage, his critics call him a hypocrite.

The senator has been the subject of a nasty investigation by bloggers and a local newspaper, involving interviews with men who claim he propositioned them or had sex with them. Mr Craig denies it. He told the *Idaho Statesman*: “I've been in this business 27 years in the public eye, here. I don't go around anywhere hitting on men, and by God, if I did, I wouldn't do it in Boise, Idaho. Jiminy!”

Whatever happens to Mr Craig is unlikely to affect the balance of power in Washington. If he decides not to seek re-election, Idahoans will probably pick another Republican. And not all gay activists are happy with the way he has been treated. Stephen Miller, writing on a website called the Independent Gay Forum, wondered why so few on the gay left were upset that the police are carrying out sting operations to catch gay men cruising.

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At the beach

A Coney Island of the mind

Aug 30th 2007 | NEW YORK
From The Economist print edition

Perhaps one last summer of quaint seediness by the sea

IT LIES at the end of several subway lines, at the southern tip of Brooklyn, filled with the sordid charms of a place that has inspired more than its fair share of fast-talking fantasists. A 150-foot-high Ferris wheel from 1920 still creaks in the sky, children squeal on dizzying rides, and lurid, hand-painted signs advertise sideshows of snake-charmers and fire-eaters. “Everything is sliding and crumbling,” Henry Miller wrote of Coney Island in his 1936 novel “Black Spring”. “Everything glitters, totters, teeters, titters.”

The beach lacks some of the razzle-dazzle it enjoyed at the start of the 20th century, when amusements sprawled farther in every direction, and three competing parks—Steeplechase, Dreamland and Luna—offered thrilling rides that let men and women clutch each other. (In 1893 the *New York Times* declared Coney Island “Sodom-by-the-Sea”.) But its carnival atmosphere is still a welcome antidote to the stresses of the city. Many come for the Cyclone, a rickety, wooden, 80-year-old rollercoaster, which has been likened to riding a really dangerous piece of furniture. The boardwalk is fragrant with greasy foods and seamy bars; families come in their bathing-suits and leave with their children limp with fatigue, their mouths ringed with sugar. The annual Mermaid Parade sees thousands of people, in home-made floats and costumes, celebrating the creatures and myths of the sea.

Coney Island has lured New Yorkers with promises of cheap thrills for well over a century. But all this may soon change, as condos and coffee shops replace the clam bars and ghost trains on the valuable beachside sites. Thor Equities, a property developer, has bought most of the six-block-long park for $150m, including the land under Astroland, the largest surviving amusement area (and operator of the Cyclone, which is protected by its landmark status).

It is not clear what will happen once the rides and food-stalls are shuttered at the end of the season. The public howled at Thor's first proposal to build apartment towers and an enormous shopping mall on the site. Newer plans for a $1.5 billion redesign include themed restaurants, high-rise hotels, lots more shops and a fancy, high-tech amusement park. The developer is in negotiations with the city, which seems keen on defending Coney Island's legacy of hoopla. But some worry that once the city changes the zoning rules to accommodate these plans, Thor will simply resell the sites at a much higher price. Locals in nearby housing projects (a grim legacy of Robert Moses, New York's master builder and a Coney Island villain) fret about losing their regular seasonal jobs.

The area has enjoyed a part-revival in the past decade, spurred by the economy, a spruced-up train terminal and the opening of KeySpan Park, home of the Brooklyn Cyclones, a minor-league baseball team. But there are still plenty of empty lots and odd furniture stores, and bits of glass and syringes are mixed in with the sand. “I can't wait for it to begin, if what's coming is a 21st-century amusement park,” says Dick Zigun, the tattoo-sleeved founder of Coney Island USA, a non-profit group that has helped reinvigorate the area since 1983. But even he seems troubled by what may soon be lost. “Nothing is legally stopping Thor from ripping down all of this,” he sighs, gesturing at everything on the boardwalk without landmark status. As Lawrence Ferlinghetti put it in “A Coney Island of the Mind”, “The pennycandystore beyond the El/is where I first/fell in love/with unreality”. And reality is about to intrude, even here.

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Lexington

The Fred factor

Aug 30th 2007
From The Economist print edition

Illustration by Kevin Kallaugher

Fred Thompson's presidential campaign has got off to a shaky start

WHEN Michael Moore challenged Fred Thompson to a debate on health care, back in May, Mr Thompson declined the invitation but decided to have a bit of fun on YouTube instead. Sitting in a leather armchair and sucking on an unlit Cuban cigar, he lambasted Mr Moore, a conservative hate-figure if ever there was one, for his naive views on Cuba and its health-care system. Next time you're down in Cuba visiting your buddy Castro, he said, why not ask about another film-maker, Nicolás Guillén, who was put into a Cuban mental institution and subjected to devastating electric-shock treatment. “Mental institution, Michael. Might be something you ought to think about.”

Those were the glory days of Mr Thompson's campaign—or non-campaign—for the presidency. Republican activists, bitterly disappointed with their choice of candidates in the primaries, seized on Mr Thompson as the perfect alternative. A former senator from Tennessee who had earned national fame as an actor, particularly on the wildly popular “Law and Order”, an imposing man with a six-foot-six frame and deep bass voice, Mr Thompson was the sort of non-scary conservative who could rally the base without alienating the middle ground.

The not-quite candidate did a brilliant job of playing on the right's expectations. He produced pieces for conservative outlets sounding familiar themes: global-warming alarmists were flat-earthers, the Virginia Tech massacre proved that students should be allowed to carry guns on campus, and so on. He went on radio and television. He attracted enthusiastic crowds as he strutted around at various political functions. Some conservatives even began to pay him the ultimate compliment—comparing him to the sainted Ronald Reagan.

Mr Thompson had left the Senate to continue his career in Mr Reagan's old profession (where, as an added bonus, he played authority figures such as federal prosecutors and even presidents, rather than cowboys). And he was known as a genial chap who preferred to keep his nose some distance from the grindstone. His years in the Senate in 1994-2002, for example, produced few notable legislative achievements. His fans recycled some of the great Reagan one-liners, such as his reply to those who wondered how an actor could be president (“How can the president not be an actor?”) or his defence of his work habits (“They say hard work never hurt anybody, but I figure why take the chance?”).

The glory days are long gone. Mr Thompson's campaign has been racked by endless problems. The *Los*

Angeles Times revealed that, in 1991, he lobbied on behalf of the National Family Planning and Reproductive Health Association. He lost several senior aides, including one on August 27th, amid accusations that his (much younger) wife is micromanaging his campaign. He raised a disappointing $3.4m in June. Lane Hudson, a former Democratic staffer, filed a complaint with the Federal Election Commission, alleging that Mr Thompson was ignoring “the letter and spirit” of the law by running a full-blown campaign without formally declaring his candidacy.

Mr Thompson's biggest problem stemmed from what, at first, appeared to be a cunning strategy: running for president without declaring that he was running. He consigned himself to a political no-man's-land where he has been denied the perks of a traditional campaign (such as appearing in Republican debates), but has nevertheless attracted all the scrutiny of a regular candidate. He has almost no infrastructure in place in Iowa and New Hampshire at a time when some of his rivals have well-oiled machines. Mr Thompson's tactic might have paid off if he had declared a couple of months ago, perhaps when the Michael Moore video appeared. But now his formal announcement of his candidacy, which is expected any day, is bound to be an anticlimax. So much for an actor's sense of timing.

No Ronald Reagan

Mr Thompson still has a chance to turn his fortunes around—and even to turn himself into a front-runner. He regularly scores in the top division in opinion polls. He's been working out and slimming down, and his appearances in New Hampshire and Iowa quickly generate a buzz. And the Republican Party remains dissatisfied with its choice of candidates. Rudy Giuliani is a weak front-runner. One poll shows Mitt Romney with higher negatives than Hillary Clinton. John McCain, never popular with hard-core conservatives, is now reviled for his role in immigration reform (or “shamnesty”, as they prefer to call it).

But Mr Thompson's chances depend on the weakness of the field rather than any outstanding qualities of his own. The comparison with Reagan is instructive. Reagan was a conservative ideologue who spent decades working for “the movement”, acting as Barry Goldwater's champion and running for the Republican nomination on a conservative ticket in both 1976 and 1980. Mr Thompson was a pragmatic senator—a centrist by the standards of the Tennessee Republican Party—who voted for Mr McCain's campaign-finance reform. His enthusiasm for the pure milk of conservative dogma is a recent development. Reagan distilled his conservative philosophy into a stump speech that had Republican donors instantly opening their wallets. So far Mr Thompson's speeches have been a succession of conservative clichés interspersed with long pauses.

In the mid-1970s, when Ronald Reagan burst onto the national scene, the Republican Party was desperate for a new direction: not just because it had been discredited by Watergate, but also because it lacked a distinctive ideology. Reagan provided that new direction. Today the Republican Party is in dire straits again, but none of the candidates has even begun to chart a new path. That is unlikely to change when and if the Republican Party's newest actor-politician joins the race.

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Ecuador

A wannabe Chávez short of oil

Aug 30th 2007 | QUITO
From The Economist print edition

Rafael Correa (pictured left) tries his own version of "21st century socialism"

AP

Get article background

NELSON ZAPATA has been shining shoes in the shadow of the Carondelet palace, the elegant colonial seat of Ecuador's presidency, for 25 years. In the past decade, he has seen no fewer than eight heads of state come and go, three of them ousted by an irate populace, political intrigue or both. He has greater faith in the current incumbent, Rafael Correa. "I'll be voting for his movement," he says, with a jerk of his thumb at the palace. Mr Correa is counting on the likes of Mr Zapata to give him a majority in an election on September 30th for a Constituent Assembly to draft a new constitution—the 19th such document in a national history of fewer than 180 years.

The election is a gamble for Mr Correa, a young left-wing economist. Win, and he will rewrite the political rules, place supporters in the institutions of state, and perhaps last longer in power than many of his predecessors. Lose, and the assembly could make him the fourth consecutive elected president not to finish his term.

His fate will be watched beyond the borders of Ecuador. A proponent of "21st century socialism" like his mentor, Venezuela's Hugo Chávez, he forms part of a radical anti-American axis that also includes Evo Morales in Bolivia and Nicaragua's Daniel Ortega. His government's slogans are a conscious echo of Venezuela's ("Now the nation belongs to all of us," proclaim the billboards) and the political methods are similar. Just like Mr Chávez, Mr Correa rails against the "oligarchy" and has an adversarial relationship with the media (he has called journalists "wild beasts"). Behind every setback, manipulating the opposition from the shadows, he perceives the evil intent of "the empire" (ie, the United States).

Certainly, much needs changing in Ecuador, whose self-serving politicians have presided over economic mismanagement and corruption. But in the seven months since he came to power, Mr Correa has disillusioned some of those who voted for him, by seeming to embody some of the same vices he is supposedly committed to eradicating. When Congress removed his economy minister, who was caught on video in an apparent plot to manipulate the debt market for profit, the president rewarded him with another ministry.

Mr Correa's political experience is limited to striking radical poses rather than engaging in the art of the

possible. Thus, it is not clear what “21st-century socialism” means in practice. “It is an invitation to an open discussion,” admits Fernando Bustamante, the cabinet minister in charge of security and political co-ordination. He says that the government is not just split between radicals and social democrats: its “pluralism is much greater”. It includes some traditional politicians.

In office, Mr Correa has combined populist handouts with incendiary talk that has alienated the middle class. That has eroded his initial, overwhelming popularity. Polibio Córdova, of Cedatos-Gallup, a polling firm, says that the president's approval rating dropped by 17 points between April and July (to 59%). “People say he doesn't handle himself like a statesman,” Mr Córdova says. “He doesn't call for dialogue, he argues and fights.”

In Venezuela, Mr Chávez laid the basis for his virtual monopoly of power through a Constituent Assembly in 1999. In Bolivia, Mr Morales has attempted to do the same. His supporters won a majority in a Constituent Assembly, but have met stubborn resistance from a well-organised opposition. After a year, Bolivia's assembly has yet to agree a constitutional draft, and this week the opposition staged strikes in half the country in protest at an attempt by Mr Morales to oust four of the five constitutional court justices.

Unlike Mr Morales, Mr Correa lacks a strong political movement. He cannot be certain of winning a majority in his assembly, though he can probably deploy his popular appeal to scrape one together. Mr Correa's strongest card is the discredit of his opponents in the traditional parties and their businessmen friends. And he has cemented support by doubling a monthly payment to poor families. Mr Chávez recently turned up in Ecuador with an offer to build an oil refinery that seemed intended to boost his ally's electoral chances.

Changing a constitution adopted only a decade ago is hardly the most effective way to address the problems of ordinary Ecuadoreans. These include unemployment, poor education and health services, and an economy growing at an annual rate of 3-4%, half that in neighbouring Peru. Ecuador adopted the dollar as its currency in 2000, after suffering hyperinflation and a financial collapse that saw 1m people migrate. That brought stability, but non-oil businesses struggle with low productivity in a largely unreformed economy.

Unlike Mr Chávez, Mr Correa is unlikely to be saved by an oil windfall. Ecuador is a modest oil exporter, but output is falling. Lack of refining capacity means that it must import expensive petrol and lubricants. Above $70 a barrel, analysts say, the country will be a net loser from further oil price increases.

On the streets, many people seem prepared to give Mr Correa and his assembly a try, but more for want of any other suggestions for ending chronic instability. It is not yet clear whether the president has anything to offer except political confrontation, a constitutional circus and a stronger grip over the economy by an ineffective state. For their part, some of his supporters prefer to believe that Mr Correa is up against forces too powerful to defeat. “I don't think they'll let him do it,” says Mr Zapata. “One or two years, and they'll kick him out.” If so, it might be that the high tide of Mr Chávez's influence in the region has already passed.

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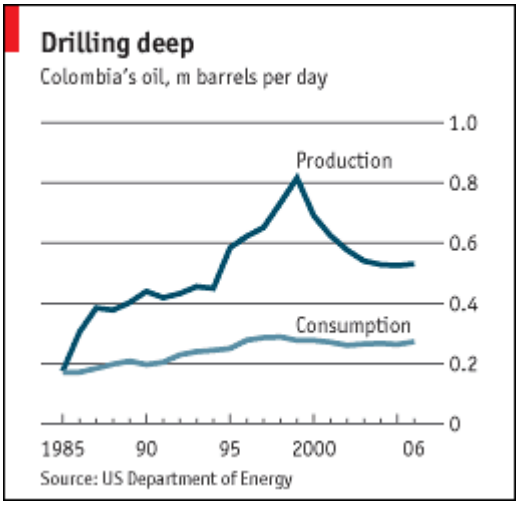
Colombia

Share gusher

Aug 30th 2007 | BOGOTÁ
From The Economist print edition

An unfashionable oil privatisation

Get article background



UNTIL a few years ago, news about Colombia's state-owned oil company, Ecopetrol, tended to appear on the newspaper pages chronicling the country's internal conflict, rather than in the business section. Its pipelines were a favourite target of leftist rebels. But on August 27th Colombia's president, Álvaro Uribe, turned up at the Bogotá stock exchange to launch, with a bang of the gavel, the sale of up to 20% of Ecopetrol's shares.

This partial privatisation bucks a regional trend of greater state control over oil and gas, exemplified by recent nationalisations or contract changes in Venezuela, Bolivia and Ecuador. Colombia's government has a different model in mind: Petrobras. Over the past decade, Brazil's government has ended the monopoly enjoyed by its national oil company, subjected it to commercial discipline and floated 40% of its voting shares. Petrobras has grown to become one of the world's top ten oil companies by market capitalisation and Brazil has become self-sufficient in oil.

Javier Gutiérrez, Ecopetrol's chief executive, says that he hopes his company will be where Petrobras is today within a decade. Until last year, oil production in Colombia was falling, raising the spectre of the country becoming an oil importer (see chart). Mr Uribe has lured foreign oil companies by offering more favourable contract terms. Now Ecopetrol hopes to invest $12.5 billion over the next four years to step up its own exploration, production and refinery capacity, rather than relying on its foreign partners.

Some of that will come from the share issue. The initial offering is for just over 10% of Ecopetrol's capital, raising some $2.8 billion. To blunt union hostility to the sale and to promote popular capitalism, only Colombians can buy (though they can sell the shares on freely). The shares are on sale at supermarkets as well as banks, and can be paid for in instalments. Mr Uribe's government has previously sold stakes in an electricity company and in Bogotá's phone company in a similar manner.

The Ecopetrol offer is much bigger: when the shares are traded on the stock exchange on November 19th, they will boost its capitalisation by nearly 40%, reckons Corredores Asociados, a stockbroking firm. But others think the shares are unlikely to be fully subscribed and that Ecopetrol will have to tap international investors next year. Either way, it will take a while before Ecopetrol, with production of 312,000 barrels per day of oil, catches up with Petrobras (1.9m b/d), let alone Mexico's Pemex. But it is starting to try.

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Canada

Worthy but dull

Aug 30th 2007 | OTTAWA
From The Economist print edition

No, not the country, electoral reform

CANADIAN politics is a four-party affair, with a fifth party, the Greens, now trying to break into the club. Yet the country clings to a British-style first-past-the-post electoral system. Inevitably, that produces some big unfairnesses—especially in Ontario, the most populous province. At the last provincial election in 2003, the Liberals won 46.5% of the vote but 70% of the seats.

Such discrepancies have prompted some Canadians to champion proportional representation. On October 10th Ontario will hold a referendum on the issue in conjunction with a provincial election. If it passes, it could soon be matched at federal level.

The referendum was the main outcome of an independent citizens' assembly on electoral reform set up by the provincial government last year. This endorsed a mixed-member proportional system (MMP), similar to that in Germany, comprising 90 constituency members, with 39 more drawn from party lists according to their province-wide vote.

This is impeccably fair but seems to leave Ontarians cold. Neither the provincial government nor the opposition has taken a position on the issue. A “Vote for MMP” campaign has set up an office in Toronto and claims a dozen chapters in the province; its opponents have managed to raise just C$500 ($470) to print a leaflet. Both are relying on a C$6-7m educational campaign by the election agency.

Proponents of change may have the edge, but they face a stiff hurdle: they must win a majority in 60% of constituencies as well as the votes of 60% of all those who turn out. That narrowly scuppered an attempt to introduce proportional representation in British Columbia in 2005.

Supporters say MMP is the cure for public alienation from politics. Opponents point out that each of Ontario's three main parties has had a spell in power in the past 15 years. They also say that MMP would produce unstable minority governments.

Yet Canadians seem in no hurry for a new election to eject their federal minority Conservative government. In March, Quebec elected its first minority provincial government since 1878. Ontario's election may also see the Liberals returned as a minority. This trend might strengthen the case for proportional representation—but only if the voters shake off their summer-holiday languor.

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Cuba's political prisoners

Out of jail

Aug 30th 2007 | HAVANA AND MIAMI
From The Economist print edition

But far from free

Reuters

The relatives hope for an end to darkness at noon

Get article background

IN AS many weeks, three political prisoners have been freed in Cuba, including the longest-serving of them, Francisco Chaviano, after 13 years in jail. He had been accused in 1994 of revealing state secrets during his research into the lives and deaths of *balseros*, the people who—especially in the early 1990s—fled from Cuba on makeshift rafts.

Much has changed on the island since Mr Chaviano went inside. The economic depression which prompted the flight of the *balseros* has eased somewhat. Oil-rich Venezuela under Hugo Chávez has replaced the Soviet Union as the country's benefactor. And ill health caused Fidel Castro to depart the public stage a year ago, leaving his brother Raúl to run the country. Indeed, for the past fortnight opposition circles in Miami have again been gripped by rumours of Fidel's death. Although no new images of him have been published since early June, newspaper articles continue to be published under his name and officials insist he continues to convalesce.

Fidel's view of dissenters was uncomplicated: all were “mercenaries”, in the pay of the United States. And Raúl? Cuban human-rights groups report that in the past year the number of political prisoners held in Cuban jails has fallen by 20%, to around 240. There have also been fewer government-organised protests outside the homes of dissidents.

Raúl Castro is understood to be far more open to the idea of debate than his brother. Visibly irritated by the congratulatory tone of many Communist Party meetings, he has called on Cubans to discuss matters “fearlessly”. Those close to him say he genuinely likes to hear different views and opinions.

But Cuban dissidents are not cheering yet. They say the government is merely being more selective. Many of those released had served all or most of their sentences, and they remain on parole. Still languishing inside various jails are 61 of the 75 dissidents who were arrested in March 2003 during an unprecedented clampdown on political opponents. Many of them helped co-ordinate the Varela project, a grassroots petition calling for a referendum on political freedoms. The project's organiser, Oswaldo Payá, appealed to Raúl Castro recently to free all political prisoners in Cuba and to allow multi-party elections. The government, said Mr Payá, had punished people enough for holding different political opinions.

But officials prefer to talk about the plight of five Cuban secret agents arrested in Miami in 1998 and serving sentences of 15 years to life in American jails. The government says they are political prisoners

since they were sent to defend the island by infiltrating exile terrorist groups, and not to spy on the American government. This month their lawyers filed the latest of several appeals in an Atlanta court.

Whatever Raúl Castro might think of demands to free his government's own prisoners, he has his hands full trying to bring modest reform to a sclerotic economy. As long as Fidel is alive and hovering in the background, there will be no political change in Cuba.

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Corruption in Brazil

Enter the judges

Aug 30th 2007 | SÃO PAULO
From The Economist print edition

Criminal charges for Lula's aides

Get article background

BRAZILIANS are sadly used to corruption scandals, but even the most cynical might have paid attention this week. The Supreme Court indicted 40 people, including the former right-hand man of Brazil's president, Luiz Inácio Lula da Silva, and the former senior leadership of his Workers' Party (PT) on charges that included corruption, racketeering and money-laundering. The case marked the first time Brazil's highest court has ever brought criminal charges against politicians—and it could finally tarnish the president's scandal-proof image.

The charges arise from the *mensalão* (“monthly pay-off”), a scheme revealed two years ago under which politicians from parties allied to the government received bribes in return for votes in Congress. The scandal was complex: public money was diverted through contracts to an advertising firm, and paid out through a friendly bank. Those involved were from the heart of government.

The people facing charges include José Dirceu, Lula's former chief of staff and once his likely successor; Luiz Gushiken, a former communications minister; José Genoino, the PT's former president; and 11 other federal deputies. The defendants' lawyers dismissed the indictments as “fiction”. The most the PT leadership has admitted to was repayment of undeclared campaign debts, a practice common to other parties.

Congress stripped Mr Dirceu of his political rights for eight years. But Lula brushed off the scandal, winning a second term last year thanks to a growing economy and effective anti-poverty measures. He now faces the prospect of a protracted criminal trial of his former comrades. Whether or not he is personally implicated, his chances of getting reforms of tax and pensions through Congress may be diminished.

The indictments came as Renan Calheiros, the Senate president and a Lula ally, also faces corruption allegations. A senate panel has examined accusations that a lobbyist for a construction firm made regular payments to a journalist with whom he had an affair and a child. He has stoutly, if implausibly, pleaded innocence even as other allegations against him mount.

Brazilians have long complained that their politicians are a law unto themselves. If Mr Calheiros goes and the Supreme Court punishes those found guilty, there may at last be fewer grounds for such cynicism.

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India's commercial capital

Maximum city blues

Aug 30th 2007 | MUMBAI
From The Economist print edition

Eyevine

Great plans are in place to resuscitate South Asia's biggest city. As ever, the difficulty lies in implementing them

THERE is only one way to see Mumbai. That is by helicopter: whirring low over the rust-brown slums, godowns and Victorian Gothic monuments of India's city of commerce, its historic gateway; then soaring high over the hazy Arabian Sea beyond. It is exhilarating. Moreover, only by helicopter can one cross log-jammed central Mumbai—a distance of around 20km (12.5 miles)—in under two hours.

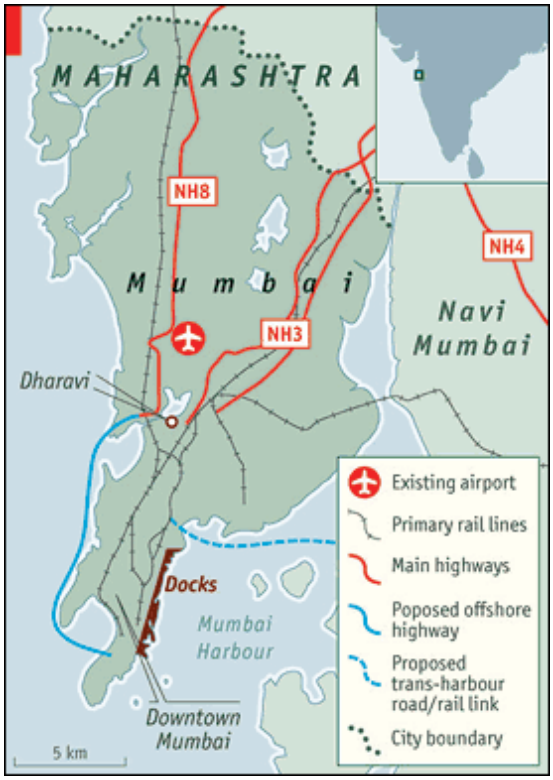
Mumbai is South Asia's biggest city. By 2015 the UN says it will be the world's second-biggest after Tokyo, with nearly 25m people. Yet already it is choking. Around half the population—of 14m, at a modest estimate—live in slums. Another 3m commute daily from surrounding suburbs. Most come by rail, though the service would be inadequate even if it were not hobbled by a shortage of trains and a surfeit of vagrants. At peak hours, 5,000 commuters cling to trains designed for 1,700. Hundreds die on the tracks each year.

Higher up the economic food-chain, the damage is commensurate. Airliners circle Mumbai by the hour, awaiting space to land. One of the airport's two runways is semi-retired, because 300,000 squatters have built shacks around it. The roads are even worse: Mumbai is traversed by two north-south highways, with no large axis between them. Yet every day an estimated 500 cars are added to the city's jams.

Mumbaikars have long seen the trouble ahead. In recent years, the state and central governments have recognised it too. There is much at stake, for India as well as Mumbai. Its recent high economic growth is an urban phenomenon. Indeed, the failure of rural India is why so many Indians come to town. Huge improvements in urban infrastructure are needed urgently.

Mumbai, moreover, for all its flaws, is the one Indian city with pretensions as an international financial hub. So state and central governments have made vast promises. The plans envisage overhauling laws and regulations and building Mumbai's infrastructure anew. The government of the state of Maharashtra, of which Mumbai is the capital, says this will cost $60 billion and take a decade.

The central government has earmarked $9 billion for Maharashtra's urban infrastructure. The private sector, it is hoped, will stump up most of the rest. Mukesh Ambani's Reliance Industries (purveyor of the helicopter tour) plans to invest $8 billion in a vast manufacturing development—virtually a new city, in Navi (new) Mumbai (see map). Reliance, India's biggest private-sector company, says it will provide 2m jobs.



But there is a problem. To redevelop Mumbai and its hinterland involves moving people. And since in India third-world conditions are dignified (at least in theory) with first-world rights, this causes blockages. The invaders of Mumbai airport, for example, have at least four representatives in Maharashtra's state assembly.

Scrapping lousy laws in corrupt India is similarly fraught: as a rule, the more economic damage they do, the more powerful are the interests defending them. And so hardly a week passes without the stalling of some critical part of Mumbai's redevelopment. Last month was the turn, not for the first time, of one of the most crucial: a scheme to redevelop Dharavi slum, allegedly Asia's biggest, which would involve resettling around 300,000 people.

At its current pace, the redevelopment of Mumbai is probably not keeping up with the city's worsening decrepitude. Yet progress there has been, in three main areas: administrative reform, legal and regulatory reform, and infrastructure. Optimists—whose ranks include some of the redevelopers—say that, as a result, the way will be less tangled ahead.

The city's rulers have already pared back a few trailing branches. Mumbai is run by 16 separate agencies. To help co-ordinate them, the government has formed a redevelopment committee representing them all. But it will achieve little unless the promised axe is wielded on certain laws and building regulations. Two are most heinous. The Urban Land Ceiling Act, a law restricting urban land holdings, has left 2,000 hectares (5,000 acres) of Mumbai in a legal limbo. For three decades these parcels have been locked in the courts, prey to rent-seeking officials. In addition, rent controls ensure that most of Mumbai's best housing is let for peanuts on renewable leases. In such places, the rental market is dead. Denied control of their assets, landlords let splendid buildings crumble. In downtown Mumbai—one of the world's priciest markets for foreigners—3,000 houses stand vacant. Meanwhile, even middle-class immigrants to the city, having no better option, stay in the slums.

The central government says Maharashtra must repeal the urban-land law before it receives its infrastructure money. In July, for the umpteenth time, the state Parliament passed up an opportunity to do so. More promisingly, a law scrapping rent controls has been submitted to Parliament.

On infrastructure, there is less good news. The first 5.6km stage of a project to build a road over the sea, along Mumbai's western coast, is 60% completed, three years overdue and so far has cost double its $150m budget. The delay follows a costly redesign, after local fishermen protested that the road impeded their boats. Construction of an 11km metro, budgeted at some $500m, has not yet started—a year after Manmohan Singh, the prime minister, inaugurated its site by breaking a coconut over it. The government is in a legal battle to acquire a plot of land to store the metro's trains.

In Dharavi, the government has done all it can to avoid such headaches. Its plan is broadly in line with existing slum redevelopment policy. It would see Dharavi's low-lying shanties bulldozed and replaced by apartment blocks. Each unhoused family would be given title to a flat of 225 square feet (21 square metres). The leftover land would be split between the developer, as his fee, and the government. Previous slum redevelopments needed the approval of 70% of the affected slum-dwellers. Dharavi's, however, have been given no choice.

Worse, anyone who arrived there after 1994 will be ineligible for resettlement. Moreover, Dharavi is a peculiarly commercialised slum. Its cottage industries—including garments and handicrafts—earn millions of dollars in annual exports alone. After the redevelopment, Dharavi's traders would be offered space for rent. But much of the slum's industry will be lost.

It is nonetheless hard to know what the government could do better. The existing slum policy was launched a decade ago, with the aim of redeveloping all of Mumbai's slums by 2007. So far, 500,000 slum-dwellers have been resettled. But 2m new ones have arrived in the city.

Reliance would rejoice at any such progress. Its new city was supposed to extend over nearly 15,000 hectares, comprising two special economic zones (SEZs). These are tax havens for export-driven industries, introduced by the government last year. But the scheme has hit the skids. After skirmishes over a proposed SEZ in West Bengal in January, the government changed the rules. So Reliance will have to lop 5,000 hectares off Navi Mumbai, and will have no government help acquiring land. “Why do they worry about my bloody SEZ?” fumes Anand Jain, Mr Ambani's partner in the project. “Why not have ten SEZs and solve all Mumbai's problems?” As if he didn't know.

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India

Mad and Hyderabad

Aug 30th 2007 | DELHI
From The Economist print edition

Nameless, ruthless and pointless

IT IS a strange terrorist who prefers to remain anonymous. Yet this seems to be the signature of the bombers who, every few months for the past few years, have exploded crude bombs in India's cities. The latest blasts were in pleasant southern Hyderabad on August 25th. In quick succession, explosions in a park during a laser show and at a crowded food-stall killed 43 people and injured scores. Another 19 bombs were discovered planted around Hyderabad, and made safe. The government of Andhra Pradesh, of which Hyderabad is the capital, leapt to blame the customary suspects: “terrorist organisations based in Bangladesh and Pakistan”.

It may be right. Informed sources accuse Shahid Bilal, a Bangladeshi Islamist, of orchestrating the bombing. Mr Bilal leads a Pakistan-based militant group, called Harkat-ul-Jihad-al-Islami, that has fought Indian troops in Indian-controlled Kashmir. In May he was alleged to have been involved in another bombing in Hyderabad, that killed 11 people.

EPA

Too much to mourn

Then again, maybe not. Indian officials, especially at the state level, tend to blame terrorist atrocities on the neighbours without much, or any, evidence. So it was in February, after a bomb killed 68 people on a train in Haryana in the north. Yet no claims of responsibility, compelling evidence or significant arrests have ensued.

One possible reason for the culprits' coyness is that they are indeed friends of Pakistan. With Pakistan currently struggling to stay friends with America and make friends with India, it may have ordered its former—or present—proxies not to cause it too much trouble.

Also uncertain is what the bombers might be hoping to achieve: an end to the peace process between India and Pakistan; or perhaps to commit just enough murder against an old enemy to keep their networks alive. Either way, the violence is worrying for India. The attacks tend to reveal the ineptitude of the police. They also serve as an unwelcome reminder that India—a new favourite with foreign investors—is a violent place. In each of the past two years, according to American government figures, India lost around 1,300 lives to terrorism, putting it second only to Iraq.

Most of these deaths were in its north-eastern and eastern states, wracked by nationalist and Maoist insurgencies. Hyderabad is different. It is a centre of the burgeoning computer-services and pharmaceuticals industries that have lured foreign investors and driven India's recent boom.

It is not known what role India's 150m Muslims, who include 40% of Hyderabad's population, play in the violence. Probably a supporting one at most. But that could change. India's Muslims have long suffered politically inspired communal violence and casual discrimination. Were they ever to become seriously riled, India would have a problem indeed.

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Pakistan

The race back home

Aug 30th 2007 | ISLAMABAD
From The Economist print edition

Pressure on General Pervez Musharraf from yet another front

Get article background

NAWAZ SHARIF, an exiled former Pakistani prime minister, makes an unconvincing white knight. Yet that is the role he is auditioning for. He has called last month's ruling by the Supreme Court that he may return from exile to Pakistan a blow against the “tyranny” of General Pervez Musharraf, Pakistan's president, who ousted Mr Sharif in a coup in 1999.

AFP

Their bonny lies over the ocean

General Musharraf had hoped that Mr Sharif, an industrialist from Lahore, the capital of Punjab province, would stay away for a decade, as was agreed in the deal, brokered by Saudi Arabia, which took him into exile in 2000. But he is now poised to reach home on the eve of Ramadan in mid-September.

Besides the return of Mr Sharif, General Musharraf is facing numerous legal challenges to his rule. He fears they may be upheld by a judiciary invigorated by his failed attempt to sack the chief justice earlier this year. In July he blithely announced he would be re-elected while remaining as army chief because he was “indispensable”. Now he sounds less confident. He has spoken vaguely of “national reconciliation”, and given strong indications that he is prepared to “doff his uniform” to share power with another exiled former prime minister, Benazir Bhutto, of the Pakistan People's Party (PPP).

Despite his avuncular, cigar-smoking appearances on a new weekly television show, the general's power is oozing away. Even strong-arm tactics have been denied him. Last month American pressure forced him to back down from imposing a state of emergency. Members of his own Pakistan Muslim League-Q (PML-Q), mainly a group of deserters from Mr Sharif's party (the Pakistan Muslim League-N, or PML-N), have already resigned or fled.

So the race is now on between Mr Sharif and Miss Bhutto, Pakistan's two main civilian political leaders, to return from exile. Mr Sharif says boldly that if he is arrested on arrival it will be a boon to his campaign for

elections due in the next few months. Mr Sharif is also a threat to Miss Bhutto and complicates her negotiations with General Musharraf. PPP members are concerned that her dealings with a military dictator have tarnished the party.

Miss Bhutto said this week that after months of wrangling the deal was almost finalised. However she called for clear indications from the general of political support for her party and a demonstration that the PML-Q was “no longer calling the shots”. Miss Bhutto wants a host of goodies: immunity from prosecution; the lifting of a ban on prime ministers serving a third term; the president's power to dismiss governments to be curbed; and the establishment of a caretaker government. All this would be wrapped into a “constitutional package”, requiring a two-thirds majority in the National Assembly, and giving General Musharraf another five years as president.

But a gulf of distrust lies between the two parties to the deal and Miss Bhutto wants clarity on contentious issues—such as whether the general will seek re-election as president from the present electoral college or from one formed after general elections. Mr Sharif will make much of her negotiations with General Musharraf, a “clear violation” of their agreement to strike “no deals with military dictators”.

The deal could be scuppered if Mr Sharif and others tap into public anger over the way in which serious corruption charges will be brushed aside. There is already a rising tide of anti-American sentiment that could swell if an undemocratic deal were seen to be foisted on Pakistan by America and Britain, both believed to back a Bhutto-Musharraf axis.

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Cabinet shuffle in Japan

Buying time

Aug 30th 2007 | TOKYO
From The Economist print edition

Shinzo Abe brings in the heavies, but remains unbearably light

Japan's politics

FOR Japan's chattering classes, it is a triumph of experience over youth. In a last-ditch attempt to cling to power, Shinzo Abe, the prime minister, has gambled all on a cabinet shuffle. This follows a humiliating defeat for the coalition led by his Liberal Democratic Party (LDP) in elections in late July, when it lost control of the upper house of the Diet (parliament). Out go Mr Abe's callow buddies and in come the LDP's gang of heavies to clean up after a year of ministers' verbal gaffes, scandals involving fiddled expenses, a suicide, a cover-up of 50m lost pensions records and a general air of gross incompetence.

The new government of “veterans”, with an average age of 60.4, is in fact a scintilla younger than the one it replaced. Its collective experience, however, is far greater. The new foreign minister is Nobutaka Machimura, who held the post under the last prime minister, Junichiro Koizumi. Another experienced former foreign minister, Masahiko Komura, takes over the defence portfolio. A former defence minister and party heavyweight, Fukushiro Nukaga, is the new finance minister. Meanwhile, Kaoru Yosano, with bags of top-level experience, was made chief cabinet secretary, the cabinet's most important post, as gatekeeper and government spokesman. He was passed over for a job last time round, perhaps because he was seen as being too well disposed towards bureaucrats. His sharp-minded predecessor, Yasuhisa Shiozaki, had declared war on the bureaucracy. A particular buddy of Mr Abe's, Mr Shiozaki lacks Mr Yosano's tact, charm and political connections.

As well as revamping the government, Mr Abe has attempted to fortify the party structure. His suave former foreign minister, Taro Aso, has moved to become the LDP's secretary-general: both men are grandchildren of former prime ministers and both have a hawkish view on foreign policy. Almost the only Abe buddy to remain in an influential post is the LDP's new policy head, Nobuteru Ishihara, son of Tokyo's talk-from-the-hip governor.

Opinion polls gave a swift verdict: Mr Abe's popularity, which had plumbed abysmal depths, shot up. Yet questions abound. For a start, the office-expense scandals that tainted members of Mr Abe's first government could spread to the entire political establishment: with politicians less able to distribute public largesse these days, fiddling petty expenses is, short of reaching into one's own pocket, almost the only way to be able to entertain loyal constituents when they come calling in Tokyo.

Moreover, Mr Abe's move to tap the party strongmen should be seen as just another sign of his fragility. Gone are most of his special advisers, who were supposed to strengthen the prime minister's executive powers at the expense of the party. In Mr Machimura, Mr Komura and Mr Aso, the prime minister has appointed party-faction heads; nearly every other faction has also been rewarded. Even one of Mr Abe's fiercest critics, Yoichi Masuzoe, who called for his resignation after the upper-house defeat, has been made minister of health and welfare—admittedly an unenviable job, since he must clean up the mess of the missing pensions records.

It all smells too much of the LDP's rank pre-Koizumi days, of jobs for the boys. Mr Abe probably calculates that by spreading favours he can stop a party in disarray from turning on him. Yet even his own political godfather, Yoshiro Mori—a disastrous past prime minister who nevertheless fancies himself the LDP's kingmaker and is peeved that Mr Abe has not heeded all his advice—was ominous. He called the new cabinet an improvement: more like a kindergarten's second year than the first.

There is also the tricky question of quite what the new government stands for. Mr Abe has dropped his constant theme of national pride and now listens, he says, to economic concerns. What, then, of his supposed reform programme? To deal with the hideous cost of farm subsidies, Mr Abe has appointed an affable farmer's friend as agriculture minister.

Though Mr Yosano, the chief secretary, is a firm advocate of raising the consumption tax to plug Japan's budget deficits and pay for future pensions, Mr Abe appears in no mood to launch such a debate. Further cuts in public spending appear to have been shelved, moves towards more government decentralisation are meeting resistance, and senior government employees are up in arms at plans to prevent them from being parachuted into cosy retirement jobs in industries they formerly regulated. “We must”, says Mr Abe, “carry out policies.” Quite. But what they are, no one is telling. Amid political chaos, the chief beneficiaries are the bureaucrats.

As for the opposition Democratic Party of Japan (DPJ), it will do its utmost to use its upper-house majority to bring down Mr Abe, once the Diet reconvenes for a special session in September. The first and crucial test is the extension of emergency “anti-terror” measures, due to expire on November 1st, that allow Japan to keep refuelling ships in the Indian Ocean to help the American-led efforts in Afghanistan. The DPJ's leader, Ichiro Ozawa, says the upper house will block the extension. Shigeru Ishiba, a former LDP defence minister, says that if Japan pulled out, even temporarily, it would deal an irreparable blow to its international reputation. If a compromise cannot be reached, he wants Mr Abe to use his remaining authority to seek a two-thirds majority in the lower house to overrule the upper house. If Mr Abe caves in to Mr Ozawa, and “jeopardises the national interest just in order to survive,” says Mr Ishiba, “there is no point in his government existing.” Mr Abe has bought time, but perhaps not much.

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China's Communist Party

Strike one

Aug 30th 2007 | BEIJING
From The Economist print edition

The party is over for China's finance minister

Get article background

THE Chinese Communist Party likes to keep everyone guessing. Less than seven weeks before its convocation, it has at last deigned to announce a provisional date for its biggest formal gathering in five years. It has been less forthcoming about why one of the invitees, Jin Renqing, the finance minister, has suddenly resigned.

On August 30th, two days after reports of Mr Jin's departure began to emerge in the foreign press, the government confirmed he had indeed quit. Even as the rumours were swirling, Su Ning, a deputy governor of China's central bank, said he knew nothing about any change of leadership at the finance ministry. Currency policy, he insisted, would remain the same regardless.

Mr Jin had been named as one of about 2,200 delegates to the party's 17th national congress. China's leaders announced this week the congress would begin on October 15th, assuming the 200-odd members of the party's Central Committee agree to the date. (It is not in doubt that they will.) The congress will be the first presided over by Hu Jintao, who became party leader just after the last one in 2002. It is a chance for him to promote his preferred successors and rewrite the party's charter to enshrine his notion of “scientific development”—meaning a bigger emphasis (largely rhetorical, say critics) on the poor and the environment.

There are often high-profile job losses as leaders jockey for position before congresses. Mr Jin, who officials say stepped down for unspecified “personal reasons”, is in illustrious company. Late last year Chen Liangyu was dropped from the Politburo and dismissed as party chief of Shanghai for alleged corruption. After lengthy internal investigations, he was expelled from the party in late July and handed over to prosecutors. Most observers agree that his downfall had as much to do with political bickering as with any misconduct.

In late June, it was suddenly announced that Chen Tonghai, chairman of China Petroleum & Chemical Corporation, a giant state-owned oil company, had resigned, also for “personal reasons”. Widespread speculation, including in China's press, has linked his departure to corruption investigations. Some reports have made a connection with the case of the other Mr Chen. Party congresses are opaque and unpredictable. But one certainty about October's is that it will shed little light on any of these shenanigans.

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Israel and Palestine

Still campaigning for co-existence

Aug 30th 2007 | JERUSALEM AND RAMALLAH
From The Economist print edition

Getty Images

There is still no shortage of Israeli-Palestinian co-existence projects, but serious activists are more sceptical of them than they used to be

Get article background

PEACE between Palestinians and Israelis is not a problem; anyone can make it. This summer alone, a group called the June 5th Initiative ran a series of “peace days” and conferences in Israel, the West Bank and several other countries. The *Sulha*—reconciliation, in Arabic—Peace Project held a three-day new-age-style festival. A thousand young Jewish and Arab would-be football stars competed in a “Mini World Cup”.

Countless others went to peace camps and summer schools in Israel and abroad. An 86-year-old Californian Jew donated 12 surfboards to Gaza and called it “Surfing for Peace”. Previous attractions have included a “hip-hop *sulha*” by Arab and Jewish rappers; an olive oil blended from the produce of Israeli and Palestinian farmers; and an Israeli-Palestinian comedy tour. Add in long-established projects such as the Jerusalem peace circus, Fighters for Peace (Israeli ex-soldiers joining up with Palestinian ex-guerrillas), a host of mixed Jewish-Arab villages, schools, youth groups, environmental bodies, magazines and websites, a peace phone line, two peace radio stations and much more besides, and the churlish might ask: if so many people are intent on making peace, why hasn't it happened by now? Or more fairly: do such “co-existence” projects actually change anything for the good?

Seven years after the last serious peace talks collapsed, polls show that most Israelis and Palestinians still think a two-state solution is the only viable end to their conflict. A joint lobby group, OneVoice, hopes to get a million of their signatures on a petition calling for immediate peace talks; it has 435,000 so far. But their views on the details, such as the borders and the fate of Palestinian refugees, remain far apart, and most doubt it will happen in the next few years. When Israel's main peace groups called a rally in June to mark 40 years of occupation, perhaps 4,000 people turned up. The many hundreds of Israeli and thousands of Palestinian deaths during the second *intifada* have hardened hearts; Israeli security measures have rendered most of the projects that brought together Israelis and Palestinians across the Green Line (the pre-1967 border) impossible.

Plenty of philanthropists—usually Jewish ones—are still happy to fund Israeli-Palestinian get-togethers “based on the mistaken European assumption that every conflict is based on a misunderstanding”, as the Israeli novelist Amos Oz, a reluctant beneficiary of many such events, recently put it. Plenty of people are happy to take their money. But the more serious donors have been shifting their approach.

The start of the *intifada*, says Amnon Be'eri-Sulitzeano, the director in Israel of the Abraham Fund, was “a big bang in the co-existence world. Many activists realised that just bringing people together isn't enough.” Palestinians were unhappy that such projects often ignored the inequalities between them and Israeli Jews, or acted as a conscience-salve for the Israelis. “Existence first, co-existence later”, became a common Palestinian slogan.

The Abraham Fund now concentrates on improving the way Israel's Jewish majority treats Arab-Israelis. It pays for cultural-awareness training for the police and Arabic lessons for young Jewish schoolchildren (the mandatory teaching starts late and there are many exemptions). One grantee, the Centre for Jewish-Arab Economic Development, runs schemes to lessen job discrimination against Arab-Israelis, who, though a fifth of the population, contribute less than a tenth of GDP.

Another big donor, the New Israel Fund (NIF), has also largely dropped co-existence. Once, “Arabs were happy to be in any kind of dialogue with Jews,” says Bruce Temkin, in the Fund's New York office. “Now they want real results.” Like the Abraham Fund, the NIF works only within Israel proper. Its pet projects are legal-advice centres and civil-rights groups that work mainly for Arab-Israelis, but also for other minorities. Ditto the European Commission. After a rethink in 2004, it decided, says a spokeswoman, that “you need to focus on internal conflicts before you go out to joint projects.” It now pays for training young Palestinian leaders and for a scheme to resolve discord in Israeli towns.

When meetings across the Green Line do work, it is usually around some common interest that can be pursued for a long time. These include a Palestinian science museum in Jerusalem, doctors' training at a hospital trauma centre, and an attempt to write school history textbooks that include both sides' narratives of the conflict. Friends of the Earth Middle East gets Israeli, Palestinian and Jordanian mayors of neighbouring districts to solve joint water-shortage problems. The Bereaved Families Forum, whose members have all lost relatives to Palestinian suicide bombings or Israeli army incursions, holds school talks and runs art projects, and operates a phone line that people can call to make contact with someone from the other side. Physicians for Human Rights, among other things, helps Palestinians who need special treatment to get to Israeli hospitals.

Those projects that still deal in traditional co-existence, such as schools and mixed Arab-Jewish communities, also stress the longer term. A study earlier this year by Israel's Haifa University found that a seven-month peace-education programme for teenagers did very little to change basic attitudes about each other, and any changes were lost again a few months later. Seeds of Peace, which brings Israeli and Palestinian children to summer camps in the United States (pictured), realised after some years that it had to involve them in follow-up projects too. Some of these, again, are not about co-existence, but about fixing problems within their own societies.

Because of the sheer profusion of peace projects, “we all have our own perspectives and we're competing for the same amounts of money, so it's hard for us to co-operate or collaborate with one another,” says Simon Lichman, who has been bringing Arab and Jewish schoolchildren together for nearly two decades. It doesn't take much prompting for activists to start sniping at one another's methods and ideologies. But when asked whether their own work influences anyone beyond the participants, they often fall silent; such things are impossible to measure.

But does it make a difference?

Schemes that focus on internal change probably have more impact than cross-cultural dialogue, albeit often controversially. Several Arab-Israeli groups funded partly by the NIF raised a storm among Jews earlier this year when they published papers calling for more autonomy for Israel's Arab minority. That, says Mr Temkin, might not have happened had discrimination against Arabs been corrected earlier; yet, he argues, it shows that now they feel connected enough to Israel to demand a discussion about their status as citizens.

And if the successes do not always make the news, it is because no news is sometimes good news. Mr Be'eri-Sulitzeano describes how a Jewish couple barricaded themselves into the basilica in the Arab-Israeli town of Nazareth last year and started setting off fireworks. Outside a lynch mob gathered. The police, who have a bad record of killing Arab-Israelis at protests, employed their new awareness training to make contact with community leaders, defuse things and rescue the couple—without hurting anyone.

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Egypt

Bashing the Muslim Brothers

Aug 30th 2007 | CAIRO
From The Economist print edition

AP

Egypt's rulers are giving their Islamist compatriots an even worse time than usual

Get article background

THERE are understandable reasons not to love the Muslim Brotherhood. Egypt's oldest and largest Islamist group did eschew violence in the 1970s, and now proclaims a belief in freedom, democracy and the rule of law. Yet the Brothers still declare that death in the cause of God is a wonderful thing. Their enthusiasm for violent *jihad* and their constant framing of Islam as a faith threatened by vicious enemies have helped spawn more radical Islamist groups, from Hamas in Palestine to the suicidal mass-killing zealots of Iraq.

This is why quite a few Egyptians nodded agreement when their president, Hosni Mubarak, recently chided the Brothers for “hiding behind religion to turn back the clock”. Some have even applauded the past few months' heavy crackdown on the group, which has resulted in some 600 arrests. But even staunch secularists found their credibility strained when another top official charged the Brothers with spreading “rumours” of torture by Egypt's police, in order to undermine the state.

The trouble is that the tales of human-rights abuse, endured not just by Islamist agitators but by ordinary citizens, smell a bit stronger than rumour. A report earlier this month by the Egyptian Organisation for Human Rights, a secular-leaning lobby, details some 567 cases of police torture in the past 14 years, of which 167 led to the victim's death. Noting that these were merely the rare cases it could document thoroughly, the group concluded that torture is practised systematically in every place of detention in every part of Egypt, “from Alexandria to Aswan”.

In the past month alone, some shocking allegations have been aired. The family of a 13-year-old boy in the Nile Delta claims their emaciated child was found dumped in the street after a week in the local police station, covered in burns, cuts and bruises, and died four days later. A citizen in the oasis of Siwa insists that policemen trying to force him to confess to a robbery drenched him in kerosene and set him alight. In Cairo, the wife of a man who had tried to press charges against a policeman for stealing his mobile phone says that fellow officers took revenge by bursting into their fourth-floor flat, beating her husband to death, then hurling him from the window. Police say he jumped.

With its interior ministry employing, by some estimates, 1.4m people, from uniformed patrolmen to the more powerful but less accountable plain-clothes officers of the State Security Investigations branch, Egypt is one of the world's most heavily policed countries. Its 75m people enjoy relative freedom from

crime. But recent years have seen growing public discomfort with the force, which is widely seen as more concerned with squashing dissent and easing the passage of official motorcades than with protecting citizens.

So the current campaign against the Brotherhood, which remains officially outlawed despite members having won a fifth of seats in the last parliamentary elections as independents, has brought the group widespread sympathy. Aside from the mass arrests, the crackdown has included the transfer of some 40 leaders to trial before military courts, bans on travel for other leaders, confiscation of personal assets, and harassment of Brotherhood-affiliated schools, summer camps and clinics.

Such punishment has several causes. Many cite the erosion of pressure for democratic reform from Egypt's key ally, the United States, along with fears generated by the electoral success of groups elsewhere such as Hamas. More immediately pressing, however, are local concerns, such as the Brotherhood's declared intention to challenge a recently imposed constitutional ban on religiously based political parties, by issuing a full-fledged legislative platform. The document's preliminary versions suggest that the group wants to capitalise not only on Egypt's strong and growing religious conservatism but also on public anger at the government's perceived indifference to the country's myriad social ills.

Another common explanation for the squeeze on the Brothers is the regime's wish to secure its hold in the lead-up to the eventual departure of Mr Mubarak, who has ruled for the past 26 of his 79 years. A long-standing rumour is that the ground is being prepared for his 44-year-old son, Gamal, an avowed free-market moderniser, to succeed him. A more recent whisper is that the senior Mubarak, whose public appearances have grown markedly less frequent, is unwell. But those are real rumours, fanned by millions of irreverent text messages, not pretend ones.

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Tanzania

President Kikwete's hard road ahead

Aug 30th 2007 | SHINYANGA
From The Economist print edition

Is Tanzania, once a symbol of heroic but failed socialist idealism, gradually heading towards prosperity under its peripatetic new leader?

TWO years into his presidency, Jakaya Kikwete is being heralded as one of Africa's rising stars, while Tanzania, after decades of sluggish growth and near-bankruptcy, is at last being lauded as a modest success. Its economy is expected to grow by 7% this year and perhaps a bit more next year. Thanks to sounder management and Mr Kikwete's embrace of the free market, foreign donors and investors have started to put in more cash. The country is feeling perkier.

Since being elected with 80% of the vote, the new president has stayed popular, despite heading the creaking Chama cha Mapinduzi (the Party of Revolution). It has ruled the country under various guises since independence in 1962 and brought it to virtual bankruptcy under its ardently socialist founder, Julius Nyerere, who ran the show until 1985.

Despite its dismal economic record, Tanzania under the austere Mr Nyerere remained something of an emblem—especially for outsiders—of post-colonial idealism: rural Tanzanians were moved en masse into collective villages under a scheme known as *ujamaa* (familyhood), big farms and factories were nationalised, multinational companies were ritually denounced, foreign investment fled, and scant opposition to Mr Nyerere's authoritarian one-party rule was brooked. But Mr Nyerere, known as the *mwalimu* (teacher), long remained a darling of left-leaning Western donors, and a hero to many Africans, for his personal incorruptibility, for his stepping down voluntarily from power (though he stayed on as party chairman for another five years) and for the eloquence and passion with which he spoke for Africa on the world stage.

So it has taken time to unpick the *mwalimu*'slegacy. Under Ali Hassan Mwinyi (1985-1995) and Benjamin Mkapa (1995-2005), the country edged away from socialism and its economy started to grow again. But mismanagement, red tape and corruption continued to hold it back. Now, at last, it seems to be moving faster ahead.

Mr Kikwete makes a point of spending half of every month out of Dar es Salaam, the biggest city, sometimes abroad, more often up-country; 45% of Tanzanians still live off the land. His recent visit to Shinyanga, a sun-scorched cotton and gold-mining region south of Lake Victoria, was his 11th safari since taking office. “It is vital for me to meet the people,” he says.

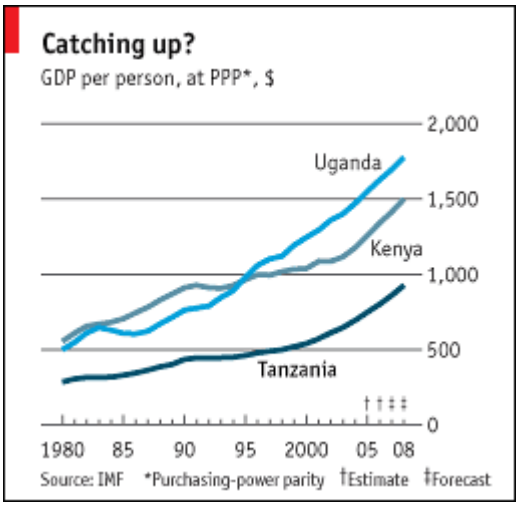
His advisers say they sometimes find the crowds daunting. “I look at all the faces,” says January Makamba, one of the president's young, American-educated aides, “and all I can see is the need to create jobs, jobs, jobs.” The GDP per head of Tanzania's 39m people is going up briskly, but is still only $860 per person.

Most of Shinyanga's 3m people are subsistence farmers and pastoralists. But the region also boasts a famous diamond mine called Mwadui Williamson's, after a Canadian geologist who first owned it and then sold it to De Beers, the South African diamond giant. Mr Nyerere nationalised it and it ran down, but in 1994 De Beers bought most of it back. Now it is winding down again, after offering up gemstones worth $2 billion. Mr Kikwete is keen to keep it going. Plainly, he knows how to put investors at ease, and has a good rapport with Jonathan Oppenheimer, a De Beers director whose father, Nicholas, is the firm's overall boss.

But gold-mining is the new hope for the region, where Barrick, a huge Canadian firm, is opening several new mines. The president's aircraft, an ageing Fokker F-28, landed on an airstrip built by the company, which also provides the area with electricity and roads. Mr Kikwete was cool with the Barrick executives; he wants Tanzania to get a bigger cut of the earnings. But mining requires massive investment. Unlike Mr Nyerere, and despite the ruling party's lingering socialist rhetoric, Mr Kikwete knows he must reassure investors.

In any event, most of his week was spent with ordinary Tanzanians, often far from a main road. Every day at dusk, he held a public meeting. Thousands turned up, some climbing trees for a better view. The mood was usually relaxed. Among other things, Mr Kikwete inveighs against the perils of unsafe sex. In the town of Bukombe, where 18% of the people are reckoned to have AIDS, he hectors the crowd: “Do you really want to go into your grave weighing two kilos?”

The 56-year-old Mr Kikwete, whose father was a district officer in the British colonial administration and his grandfather a chief, works 16 hours a day, six days a week. He rises at dawn, listens to the BBC World Service, then scans the Tanzanian press “to see where the wind is blowing”. He takes two weeks holiday a year, always on safari in Tanzania. “My staff groan, but the animals take my mind off work.”



Much of this visit was spent opening things: new roads, cattle stations, cotton gins, gold dealerships, co-operative banks, clinics and a Chinese-built project costing $85m that pumps water 170km (106 miles) from Lake Victoria. Mr Kikwete makes a point of sitting in the front seat on the bumpy drives between districts. In villages en route, his convoy is often blocked. Good-natured crowds throng round the president's no-frills black Toyota Land Cruiser, pleading for a road or electricity or even food; malnutrition is common. Mr Kikwete opens the sun-roof and springs up through it, like a jack-in-the-box, meeting the crowd with a sympathetic smile.

The most striking development is in education. In the past year, the government boldly claims that no fewer than 187 secondary schools have been built in Shinyanga region alone. In the few that Mr Kikwete opens, he particularly encourages girls to stay on in education—to seek opportunities, not to make babies.

We trust you

Some of these new schools have been paid for by foreigners. But, as a mark of trust in the relative probity of Mr Kikwete's government, many of Tanzania's biggest donors, led by Britain, now give their money directly to support the budget. Even so, Mr Kikwete bemoans the scarcity of funds. “If people spent a day at my desk,” he says, “they would understand that resources simply don't exist.” Tanzania's budget is only half-covered by state revenues. Nearly half of Tanzanians are under 17. Unemployment is rife.

Another hopeful development is the faster flow of information, especially to Tanzania's poorest communities. Mr Kikwete's own mobile phone is a good example. Even in Bukombe, with its streets of dust and brothels lit with kerosene lamps, the presidential phone, set on silent, lights up like a firefly with

text messages, several of which he reads out at random.

One is from a nurse in an isolated hospital on the shore of Lake Tanganyika, who complains about the poor quality of medical care—a message Mr Kikwete forwards straight to his health minister. Another is from a whistle-blower who accuses a Pakistani-owned textile business of illegally bringing in family members from Pakistan in place of local workers. Mr Kikwete forwards this to immigration officials. “Sometimes,” he says, “I think I'm nothing more than a post officer.”

Corruption is still a headache; some say that Mr Kikwete is too lenient towards crooked politicians and civil servants, though an anti-corruption bill was enacted in April and an investigation has been ordered into the murky accounts of the Bank of Tanzania. His other big headache is Zanzibar, where many people remain dissatisfied with the island's union with the old Tanganyika. Still, on the wider front, the engaging Mr Kikwete seems to be bouncing along.

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Malawi

Fish versus AIDS

Aug 30th 2007 | JOHANNESBURG
From The Economist print edition

Fish ponds are helping in the fight against AIDS

Get article background

LIFE for Agnes Kanyema is looking up. The retired teacher and her husband are caring for four of their grandchildren, whose parents have all died of AIDS. Their meagre pension is not enough, so they rely on farming to eat and make ends meet. Now, with the help of WorldFish Centre, a non-profit outfit based in Malaysia, Mrs Kanyema also runs a fish pond, which not only provides extra cash and protein but also helps her grow maize and vegetables on her small plot of less than a hectare (2.47 acres). Her pond provides water for crops during droughts and she uses the sediment as fertiliser. The fish and vegetables help feed her family, and she sells the surplus at the local market.

The WorldFish Centre has helped 1,200 families who have lost breadwinners to AIDS to dig and run fish ponds in southern Malawi's Zomba district. The small landlocked southern African country relies heavily on subsistence farming. But HIV/AIDS, erratic rains, overpopulation and soil erosion are taking a big toll, making it hard for farmers on tiny plots to survive. With Malawi's main lake overfished, people are losing a big source of protein. In the 1970s they ate 14 kilos of fish per person a year; now they consume just four kilos.

The ponds, which are easy to maintain, cost only $200 to make and $10 to stock with fish. They are filled from the water table or by nearby streams; rain keeps them going. The fish are fed from farm waste and by-products, such as chicken manure and maize bran. According to WorldFish, families with fish ponds have doubled their income and now eat 150% more fresh fish. Malnutrition among children under five has apparently dropped from 45% to 15% in three years. Mrs Kanyema passes on the training she has received on fish-breeding and on how to use her pond for agriculture to her neighbours.

Pond owners sell most of their fish and vegetables locally, where there is enough demand to keep everything fresh. But they are also being taught to smoke fish, which keeps it for two weeks. Daniel Jamu, WorldFish's regional director, says that the next step is to help farmers club together to market their produce in the towns, where prices are higher.

Many poor farmers are starting to view aquaculture as easier and cheaper than raising cattle. WorldFish is expanding the project to reach another 26,000 families in neighbouring Mozambique and Zambia, as well as Malawi.

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French foreign policy

Running fast, but where is he going?

Aug 30th 2007 | PARIS
From The Economist print edition

Illustration by Peter Schrank

Pro-American, inspired by morals but pragmatic too: Nicolas Sarkozy sets out his ideas for a new foreign policy

Get article background

THE French have grown used to Nicolas Sarkozy's hyperactivity at home. Now the rest of the world is getting a measure of it too. In just over 100 days in office, President Sarkozy has persuaded the European Union to adopt a “simplified treaty”, given a diplomatic push to peacekeeping efforts in Darfur, floated the idea of a “Mediterranean Union”, helped to free Bulgarian nurses on death row in Libya, lunched with George Bush at Kennebunkport, dispatched his foreign minister to Iraq, and, this week, delivered a landmark foreign-policy speech in which he issued a stern warning to Iran. France, Mr Sarkozy seems to be saying at every turn, is back.

What does all this frenetic diplomatic activity add up to? Mr Sarkozy's top concern seems to be to get France taken seriously again. In recent years, its voice has been barely audible. After Jacques Chirac tried to block the invasion of Iraq in 2003, France was hardly listened to in Washington, DC. And when the French voted against the draft EU constitution in 2005, it was ignored in Brussels too. “Wherever we travelled during 2006,” says a Sarkozy aide, “everybody just said: we are waiting for a new president.” Mr Sarkozy is determined to make good his campaign promise of a “rupture” with the Chirac era. The French, he declared this week, “want a president who acts and gets results. That's true at home. That's true in foreign policy.”

A middling Old World power, how is France to do this? Mr Sarkozy seems to have three main ideas. First, like Mr Chirac, he believes that France must project its power through Europe. And to be more credible, Europeans must revive their common defence policy and “assume fully their responsibility and role of ensuring their security and that of the world.” Unlike Mr Chirac, though, Mr Sarkozy seeks to achieve these aims as a partner of America, not an antagonist. “The friendship between the United States and France is as important today as it has been during the two previous centuries,” he said in his speech. He even spent his summer holiday in America, which he has called “the greatest democracy in the world”.

Mr Sarkozy tried to assuage American suspicions of Europe's military ambitions—which Mr Chirac regarded as a means of rivalling NATO and countering American power—by stressing that “progress on European defence is in no way a competition with NATO”. He argued that France needed to “reinvent” its relationship with the Atlantic alliance. Some observers even suggest that Mr Sarkozy might be preparing

for a return of France to NATO's integrated military command, which De Gaulle pulled out of in 1966.

For the moment, Mr Sarkozy has started to sound more muscular and supportive on some issues that America cares about. This week he described Russia as “playing its trump cards, notably oil and gas, with a certain brutality” and accused China of “transforming its insatiable search for raw materials into a strategy of control”. He talked bluntly of the risks of a confrontation between Islam and the West. He spelled out the stark choice over Iran, should sanctions fail: “an Iranian [nuclear] bomb, or the bombing of Iran.”

His second idea is to restore a moral dimension to French diplomacy. The choice of Bernard Kouchner, a former UN administrator of Kosovo and co-founder of Médecins Sans Frontières, as foreign minister was hugely symbolic. Mr Sarkozy says he wants to end French paternalism in Africa. There is nothing new about a French president insisting that his country carries a “message of values”, enshrined in its declaration of human rights. But, say his supporters, Mr Sarkozy wants to show concrete results. He pushed hard, for example, for the UN Security Council resolution on a new peacekeeping force for Darfur.

There is a third idea, not articulated, but which seems to be guiding this new diplomacy: a fresh pragmatism, based on a more realistic assessment of France's rank, and a touch of opportunism. In his entire speech, Mr Sarkozy mentioned neither French *grandeur* nor *gloire*, both staples of Chirac-era discourse, preferring less ambitious terms such as France's “influence” and “role”. Mr Kouchner's trip to Iraq, the first by a French foreign minister since 1988, was intriguing. He spent fully three days there, trying to see how France—untarnished by the 2003 intervention—could help diplomatically (although he nearly blew it later by suggesting that Nuri al-Maliki, the Iraqi prime minister, should be replaced). Similar thinking lay behind the meeting on Lebanon that Mr Kouchner organised in July in Paris, inviting all Lebanese political groupings, including Hizbullah—a prospect that would have been unthinkable for the Americans.

Working the ground, sniffing out opportunities to clinch deals, prodding reluctant parties into talks: this “on-the-ground diplomacy” on all fronts, as Mr Kouchner described it this week, carries risks. It can be badly thought through, as when President Sarkozy persuaded Colombia to free a top guerrilla, in the hope that it might lead to the liberation of a Franco-Colombian and other hostages held there; so far, it has not. It can be unpredictable, if not grating, for France's friends, such as when Mr Sarkozy and his wife, Cécilia, stepped in at the last minute to help to free the nurses in Libya. It will sometimes rub against others' interests, such as Mr Sarkozy's firm hostility—against British and American policy—to Turkish membership of the EU. Mr Sarkozy, though, is nothing if not a risk-taker.

For the moment, his gambles are paying off. A survey by TNS Sofres, a pollster, this week found that 71% thought Mr Sarkozy's first 100 days had been positive, and 75% approved of his efforts regarding France's place in the world. The world may still be sizing him up, but the French seem to like what they see.

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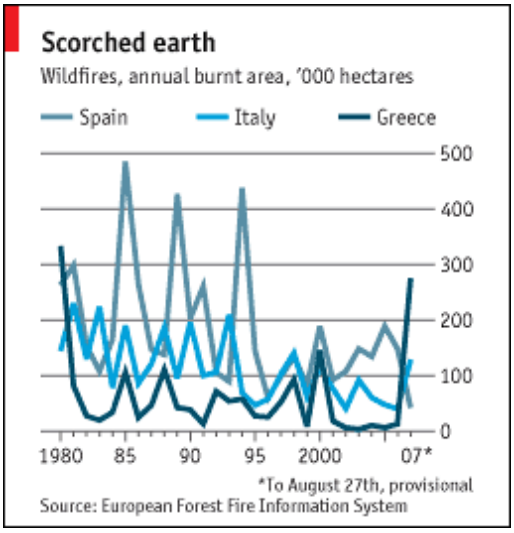
Forest fires in Europe

A combustible mixture

Aug 30th 2007 | ATHENS, MADRID AND ROME
From The Economist print edition

Government incompetence and corruption encourage the arsonists



AS RECENTLY as two years ago, a forest fire came close to burning down the home of Costas Karamanlis. His seaside villa outside Athens was spared, but the conflagration prompted the Greek prime minister to promise stricter measures to stop developers from building on land cleared by fires; satellite photos, for example, would be taken at regular intervals to help enforce Greece's law banning construction in forest areas.

Mr Karamanlis failed to deliver. This week the emergency services struggled to contain the worst forest fires in Greece for more than a century, which have killed more than 60 people. Forestry officials say the firefighters' work was hampered by the lack of satellite imagery.

Many perished trying to escape from Zacharo, a village in the Elis district in south-western Greece, as it was engulfed by flames. Homes in more than 100 villages were gutted. By some estimates, the fires have so far caused €5 billion ($6.8 billion) worth of damage.

The government, which called a snap election on September 16th, may yet face a backlash over its handling of the fires. It was quick to come up with money for the stricken—€13,000 (roughly $18,000) in cash, equivalent to more than a year's income for many villagers. Few were grateful, though. Many who escaped said they felt let down by the authorities. Conspiracy theories abound. Some members of Mr Karamanlis's New Democracy party claim their opponents started fires deliberately to discredit the government.

In truth, there are many causes. To begin with, Greece lacks a proper fire-prevention strategy. An exceptionally hot summer, following a winter drought, has made the resinous pine forests particularly flammable. Other countries, such as Italy, are having a bad year of forest fires.

But arsonists certainly have strong economic incentives. Rising incomes have fuelled a construction boom. In Greece, as in other Mediterranean countries, demand is particularly high for land near the sea to build second homes. Although Greek law states that builders cannot put up homes on former forested areas, developers are practised at getting around such regulations.

One reason is that Greece, unlike other European states, lacks a comprehensive register of forests and land ownership. A programme to put this right, paid for by the European Union, is moving slowly. It is easy to have burned forest land reclassified as former farmland, which can then be sold for development. Local officials are often open to bribery, while politicians are prone to declaring amnesties for illegal buildings ahead of an election.

Such problems plague other fire-prone parts of Europe. In Italy, where at least seven people died in fires this summer, an environmental group, Legambiente, estimates that 60% of fires are deliberately set. Some are the work of pyromaniacs. Others are started by farmers trying to clear land, or by part-time forestry workers creating employment for themselves.

There are also good reasons to suspect economic motives linked to Mafia-style organised crime. In 2000 the government passed a law banning construction for 15 years on property where there had been a blaze. However, such legislation has to be adopted at local level. In Sicily, not a single council has incorporated the law. In Campania, stronghold of the Camorra syndicate, a firefighting helicopter was shot at on August 6th.

In Spain, though, a recent study by Greenpeace, an environmental lobby group, suggested that deliberate arsonists were only a minority. Looking at thousands of fires whose causes fire were known (about half the blazes in the past decade), the study suggested that the worst culprits were farmers starting fires to burn stubble, clear land or remove rubbish.

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Turkish politics

The next battle

Aug 30th 2007 | ANKARA
From The Economist print edition

Abdullah Gul has been elected president. But the ruling AK party faces more conflict with the generals over a new constitution

Get article background

“IT'S the final nail in the army's coffin.” That is how one pro-secular government official summed up the elevation of Abdullah Gul, a former Islamist, to the presidency on August 28th in the teeth of opposition from the country's generals. Others saw it as a moral victory for the pious masses over an overweening secular elite that has long concentrated power and wealth in its hands.

Either way, Mr Gul's journey from a working class family in the Anatolian heartland to the pinnacle of secular power will transform Turkish politics. The new era may promise greater liberties, but also more meddling from the army. As president, Mr Gul, until this month Turkey's respected foreign minister, will have the power to veto legislation and a say in the appointment of senior officials. Most discomfiting of all for the generals, Mr Gul is now their commander-in-chief.

The top brass refused to salute him during his first official engagement, and stayed away from his oath-taking ceremony this week. So too did Mr Gul's wife, whose Islamic-style headscarf came to embody the political crisis of the past four months, since Mr Gul first announced his candidacy. The head covering is banned in all government buildings and schools and, until this week, in the presidential compound where Ataturk, founder of the republic, once lived.

In his inaugural address, Mr Gul sought to ease the fears of his critics, insisting that he would abide by the secular principles of Ataturk's republic. He also showered praise on the generals and pledged to keep up Turkey's attempt to join the EU.

Yet the 56-year-old former economist hinted at a looser interpretation of Turkey's unique brand of secularism. Until now this has been defined by Ataturk's renunciation of Islamic symbols and rigid state control over all aspects of religious life. Secularism, said Mr Gul, was a precondition for “social peace” but also offered a model “for different lifestyles”. Some seized on his words as proof that he will support loosening restrictions on the headscarf and religious education.

Much will depend on his former boss, Recep Tayyip Erdogan, whose Justice and Development (AK) Party was swept back into office in July's elections. These were called after a prolonged trial of strength that began when the army, backed by the pro-secular judiciary, tried to stop Mr Gul's attempt to become president. The generals, who have toppled four governments since 1960, threatened to intervene again but have so far stayed their hand.

As Mr Gul approved a new pro-EU cabinet this week, another clash loomed over a “civilian” constitution that Mr Erdogan proposes to adopt next year to replace the current text, written by the generals after their last coup in 1980. Draft clauses leaked to the media are nothing short of revolutionary: senior officers will no longer be immune from prosecution in civilian courts, military appeals courts will be scrapped, Kurdish will be taught as a second language in government schools and the definition of Turkishness will be expanded to embrace citizens from different backgrounds and creeds.

The army is unnerved. Pundits reckon Yasar Buyukanit, the chief of general staff, was alluding to the new constitution when he spoke of “centres of evil” bent on eroding secularism in a statement this week. Some expect that the generals may now to try to drive a wedge between the president and Mr Erdogan. There has long been an undercurrent of rivalry in their political alliance. Moreover, the new constitution also calls for a significant trimming of presidential powers. Might Mr Gul be tempted to block it? This may be wishful thinking by the humbled generals.

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The murder of Anna Politkovskaya

Spooky business

Aug 30th 2007 | MOSCOW
From The Economist print edition

Intriguing arrests, but few answers

WHEN Anna Politkovskaya was shot dead at the entrance to her Moscow flat last October, President Vladimir Putin quickly tried to dispel any notion that pro-Kremlin forces were behind the murder of an outspoken journalist who had exposed abuses in Chechnya and the suppression of dissent at home. Instead, he blamed the killing on enemies abroad (read: Boris Berezovsky, the ex-oligarch exiled in London) who, he said, were trying to discredit him and "create a wave of anti-Russian feeling".

After months of investigation, Russian prosecutors have, surprise, reached the same conclusion. On August 27th Yuri Chaika, Russia's prosecutor-general, hailed the arrest of ten suspects. He declared that the masterminds were "people outside the Russian Federation" and argued that the murder was "in the interest of those who want to destabilise the situation in the country, change the constitutional order, and return to the system when money and oligarchs decided everything".

Such political spin apart, the investigation appears to reveal disturbing links between the security services and the criminal underworld. Several of those arrested are former or serving officers of the Federal Security Service (FSB) and the police. It seems that a criminal Chechen gang, which specialised in contract killings, hired an FSB officer and his counterparts from the interior ministry to watch Ms Politkovskaya's movements. "It was strictly business, nothing personal," says Sergei Sokolov, a senior editor at *Novaya Gazeta*, a newspaper Ms Politkovskaya worked for.

Mr Sokolov and his colleagues praise the work of ordinary investigators. They say the names of those arrested cropped up in the newspaper's own inquiries. What the journalists find disturbing is that confidential information was leaked and that the prosecutor-general has adopted a sweeping political interpretation before the end of the investigation. Ms Politkovskaya's colleagues say the idea that oligarchs ordered the killing is just "one version". Nevertheless, says Mr Sokolov, "we think those who ordered the murder are inside the Russian Federation."

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Charlemagne

Czechs with few mates

Aug 30th 2007
From The Economist print edition

Illustration by Peter Schrank

The heirs of Vaclav Havel deserve more respect in Europe for supporting democrats abroad

THERE are two quick ways to become a misfit in a club you have just joined. The first is to flout its rules and values; the second is to take them too seriously. Take the European Union and its commitment to promoting democracy and human rights, values so central to Europe's identity that they appear in the opening paragraphs of the new EU “reform treaty”.

On the face of it, this should be good news for the Czech Republic. In the three years since it joined the union, it has earned a reputation for promoting human rights at every turn. Czech officials regard their newly minted EU membership as a chance to influence a club with global clout, and throw Europe's weight behind democrats everywhere from Myanmar to Belarus, Moldova and Cuba (a particular Czech obsession). Indeed, there is a whole unit inside the Czech foreign ministry devoted to helping dissidents in other countries.

Alas, inside the Brussels foreign-policy machine such concerns are an irritant. EU diplomats describe the Czech Republic as out on a limb, even “unprofessional”, when it makes emotional points about freedom that are far off the agenda of given meetings. When the Czechs speak about Cuba, there is particular eye-rolling and checking of watches. The Czechs do not really believe their rhetoric, murmur old-school diplomats; they are merely acting as “message boys” for the Americans.

True, there are other members of the club who will sometimes confront dictators (at least when it does not cost them too much). Depending on the issue, the Nordic countries, the Netherlands, Britain, France, Poland and some of the Baltic states stand out for their (intermittent) displays of moral fibre. But to a striking degree, it is the Czechs who ask uncomfortable questions about democratic values, even in internal EU exchanges on issues such as Taiwan or the Balkans that never become public.

Czech officials say they are motivated in part by their memories of Nazi and Soviet oppression (though several other ex-communist EU nations with similar histories appear rather less fussed about human rights). A bigger reason, all agree, is the moral example set by Vaclav Havel, an ex-dissident writer and the country's first post-communist president—not least his role in ensuring that ex-dissidents filled key government positions, notably in the higher ranks of the foreign ministry.

Are the Czechs merely paying lip service to promoting democracy in Cuba, as Brussels types suggest? Simon Panek, director of a prominent Czech human-rights and development outfit, People in Need, ponders the question. Well, he replies mildly, every March since 2003, when Fidel Castro locked up 75

political opponents, People in Need erects a cage in Wenceslas Square to represent a Cuban prison cell. Supporters put on mock prison uniforms and sit inside. What sort of supporters? The foreign minister sometimes comes along and dons prison stripes, Mr Panek says. The mayor of Prague and various musical stars also take part. Then the press is invited to take photographs of them in the cage.

To Mr Panek (whose organisation is credited even by sceptical EU diplomats for taking “great risks” in helping democrats in places like Belarus), it is no shame if Czech ministers and officials become heated about human rights. “In Brussels, it may look like we are missing the point, being a bit old-fashioned or not playing the EU game. Well, maybe we're bringing some very basic values back to the table.” What is the EU ultimately for, he asks. “Only to have a higher cumulative GNP than the Americans? To ease shipping between Greece and Britain?”

Karel Schwarzenberg, the Czech foreign minister, dismisses the charge of being “lackeys of America”. Nonsense, he says. The Czech government opposes both the American trade embargo on Cuba and the Guantánamo Bay prison camp that America maintains on its eastern tip. “I am against Guantánamo because I think it is a violation of human rights,” he says crisply.

Dissident voice

EU policy on Cuba has wavered in recent years, with Spain and the Czech Republic more or less at opposite extremes. Spain urges greater engagement with Fidel Castro's regime. The Czech Republic wants to balance this with greater recognition of Cuban dissidents. Two years ago, ex-President Havel accused Spain of “shameful” appeasement for pushing European embassies in Havana to ban dissidents from attending receptions. (For the Spaniards, the Czechs were guilty of gesture politics that misfired.) This is a legitimate debate, says one Czech official. If it causes tensions, perhaps the EU should not set so much store in finding common positions. “What the EU lacks is a division of labour. If the Spanish could talk to the Castro regime, and the Czechs could talk to opponents, then both sides could come back to Brussels and exchange information,” says the official.

Accusing the Czechs of acting as messenger-boys for the Bush administration is a loaded charge in Brussels. The shadow of Iraq, and widespread European opposition to the war there, hang over anyone who advocates democracy overseas. But the Czechs, Mr Schwarzenberg insists, do not believe in trying to export democracy: “What you can do is help people who want to establish democracy in their own country.”

Mr Schwarzenberg is a rather old-fashioned figure (he is in private life a prince, with several castles to his name). He sums up the code that should define civilised nations. “Democracy is not just a question of voting systems, and having a good constitution,” he says, “It is a question of—and the English have a wonderful expression for it—accepting things which are done and not done. As long as this code does not exist, each democracy has its difficulties.” This is rather a courtly formulation, and would doubtless trigger further eye-rolling if uttered in Brussels. But if the EU were serious about being a club ruled by moral values, it is the kind of talk that should fit right in.

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Health-care politics

Can Gordon fix the National Health Service?

Aug 30th 2007
From The Economist print edition

Mr Brown will find it hard to regain the commanding heights on health

Illustration by David Simonds

Get article background

FOR a chancellor of the exchequer turned prime minister, the irony must be galling. The National Health Service has dominated voters' concerns during the decade that Labour has been in power. Responding to these worries when he was at the Treasury, Gordon Brown sanctioned budget-busting increases in spending on health. Yet as the public became increasingly disenchanted with the government's handling of the NHS and more pessimistic about its prospects, Labour squandered its huge historic lead as the party most trusted to run the health service.

The publicly funded NHS is an iconic institution for Labour, which brought it into being after the second world war. After trying to make it work better by imposing tough targets, Tony Blair, as prime minister, increasingly stressed the need to unleash competitive pressures within the NHS, an approach that violated traditional Labour values. Mr Brown, by contrast, expressed scepticism that the health service was the right place to look for invisible hands, and this led to speculation that, once in the top job, he might seek to reverse or slow his predecessor's reforms.

In a surprise move, Mr Brown instead simply changed the subject, highlighting new priorities such as housing when he set out his political stall in early July. He also played for time, asking Sir Ara Darzi, a prominent surgeon whom he had made a health minister, to work out how the NHS should develop over the next decade. Sir Ara, now Lord Darzi, will issue an interim report in a few weeks' time; his final report is due by June 2008.

The political tactic of preparing the ground by commissioning a friendly forward-looking review worked rather well for Mr Brown at the Treasury. Casting a problem forward helped deflect awkward questions about what Labour had actually achieved in office. But if the prime minister thought this technique would be enough to reverse Labour's slide on the NHS, a poll by ICM published on August 27th in the *Guardian* will have been a rude awakening. It found that 44% of the public thought the NHS was likely to deteriorate under Labour, compared with only 35% who thought it would head downhill under the Conservatives, a margin of 9%.

This means that Mr Brown will soon have to come up with new remedies for the NHS. Despite his lack of

enthusiasm when he was chancellor for encouraging market pressures within the health service, he now looks set to carry forward the broad thrust of Mr Blair's reforms. The programme to step up private provision of hospital care financed by the NHS may be trimmed, but the strategy of more patient choice and greater competition within the health service will continue.

Even if he sticks to the same general strategy, Mr Brown needs to tackle some of the specific reasons why the public has become so critical of the government's performance on health. Crucial among these is a belief that Labour has simply mismanaged the NHS. After the general election in 2005 big deficits emerged in many parts of the health service, although it had received lashings of taxpayers' money. The retrenchment needed to deal with these financial difficulties hurt not just patient care but also Labour's reputation.

This perceived incompetence was exemplified by a flawed attempt to change NHS recruitment practices. It went so wrong that emergency steps had to be taken to match junior doctors with hospital training places this summer. A review group chaired by Neil Douglas, vice-chairman of the Academy of Medical Royal Colleges, recently concluded that this botched shake-up “sparked the biggest crisis within the medical profession in a generation”.

In fighting to restore faith in Labour's ability to run the health service, Mr Brown has named a fresh team, led by Alan Johnson. The new health secretary has one big thing going for him: the NHS as a whole has swung back into surplus. Mr Johnson, an emollient former trade unionist, has been able to rustle up sufficient money to sweeten this year's pay deal, which should avert a threatened strike by NHS staff.

But health-service funding will tighten next year. For the best part of a decade NHS spending has risen by around 7% a year in real terms. Sustaining such a pace is unaffordable and the new spending settlement to be announced in October is likely to halve that growth rate. This is still generous, compared with what other public services will receive, but after so many fat years it will feel like famine for the NHS.

With money tight, Mr Brown's main strategy for retrieving Labour's reputation on health care will be to try to regain the trust of doctors and nurses, who have been upset and infuriated by the “command-and-control” regime of targets and admonitions. Low morale among medical staff is a problem not just for the NHS but also for Labour. As Ben Page, a pollster at Ipsos MORI, points out, the views of trusted health-service professionals matter hugely. If the doctors are badmouthing the NHS, it is difficult for the government to counter their criticism.

Lord Darzi's review provides a way for Labour to rebuild bridges with the medical profession. One of the main tasks he has been set is to work with the doctors “to ensure that clinical decision-making is at the heart of the future of the NHS”. But Lord Darzi could still ruffle a few medical feathers. A report that he conducted for London's NHS suggested moving relatively simple hospital treatments into cheaper “polyclinics”, which would form a halfway house between a family-doctor practice and a hospital. Neither general practitioners nor hospital consultants are likely to be keen on this innovation if it features prominently in his national review.

Under Mr Brown, policy towards the NHS will thus combine continuity and change. The main reforms introduced by Mr Blair will remain intact but there will be a rapprochement with clinicians. The package may wrest back some of the lost ground, but, despite all its largesse, Labour is unlikely to regain the commanding heights it once occupied as the undisputed party of the NHS.

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Health-care information

Getting better

Aug 30th 2007
From The Economist print edition

Doctor, am I going to die? And other important questions

Get article background

GONE are the days when patients of the National Health Service expected doctors to decide which treatment they would have, and where. Today's patients are meant to make up their own minds. Convinced that consumer choice is the key to improving health care, in 2005 the government launched “Choose and Book”, a computerised system that patients and family doctors could use together to select health-care providers.

But take-up has been disappointing. Only 40% of referrals are now made this way, far short of the government's target of 90%. Doctors say the system is slow and hard to use. In June the acting chairman of the British Medical Association described it as a “chaotic shambles”.

Such problems are worrying but should, over time, be fixable. More serious is the fact that patients—and indeed family doctors—lack much useful information on which to base their choices. Specialists do not have to make public how well they perform the treatments prescribed, and often do not know themselves how they measure up.

Slowly, this information drought is easing. Last year hospitals that perform heart surgery began publishing survival rates, along with the rates that, on Europe-wide calculations, they would have expected given the particular patients they treated. (The old and sick, unsurprisingly, usually fare worse, no matter how skilled the surgeon.)

Heart surgeons have taken a lead for two reasons. One is that results are easy to measure: a surgeon whose patient survives has already provided a significant proof of competence. The other is that the specialty was shaken by the findings in 2001 of an inquiry into the deaths of heart patients at Bristol Royal Infirmary. It concluded that between 1984 and 1995 at least 30 children died because of the unit's poor standards, and that although concerns had been raised repeatedly, nothing had actually been done.

Officials are working to offer similar information in other areas. June saw the launch of NHS Choices, a website where patients can compare health-care providers on several measures, so far mostly matters such as waiting lists and cleanliness rather than success rates. By April 2008 it will cover all specialties, and frantic work is being done to provide meaningful indicators in fields where mere survival is not a useful measure.

Some worry that there will be unintended consequences, no matter how carefully data are adjusted to account for differences among the patients treated. They point to school league-tables, which are often blamed for encouraging schools to push pupils towards easier subjects and to manipulate admissions so as to get rid of hard-to-teach children. No doubt there will be teething troubles. But patients need objective information if they are to take charge of their medical destinies and, incidentally, improve the country's health care with it.

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Brown's referendum dilemma

To vote or not to vote

Aug 30th 2007
From The Economist print edition

Pressure grows for a plebiscite on Europe

Gordon Brown

IT WAS always assumed that Tony Blair's most troublesome bequest to his successor would be the war in Iraq. Serious competition, however, is coming from his promise in 2004 to hold a referendum on a proposed new constitution for the European Union. Buried after voters in France and the Netherlands rejected it, the constitution was replaced in June by a truncated draft reform treaty. Pressure is growing for a plebiscite on the new version.

Gordon Brown, anxious to avoid a referendum that he would probably lose, is strictly correct that Mr Blair's promise was to hold a vote on an EU constitution, and that the treaty is not a constitution. It amends, rather than replaces, existing EU treaties, hence the tortuous legalese with which it refers to particular articles of the older documents. But the content is little different. The removal of the preamble and references to the EU flag and anthem, as well as the relegation of the charter of fundamental rights to an annexe, are cosmetic changes. Furthermore, other European heads of government seem sure that the treaty is a constitution in all but name, as is the father of the original document, Valéry Giscard d'Estaing.

What should alarm the prime minister is that suspicion of the treaty is not limited to a small EU-bashing sect on the right of the Conservative Party. Ian Davidson, a backbench Labour MP, estimates that as many as 120 of his colleagues on the government benches want a referendum. Some ministers, including Jack Straw, the justice secretary, are thought to be sympathetic. Several large trade unions also favour a vote. On top of all this, some Liberal Democrat MPs, cross that the party is seen as impulsively pro-Brussels, are reportedly urging their leader, Sir Menzies Campbell, to back a referendum.

In the event, rather fewer Labour MPs would probably buck the party whips, and Mr Straw is unlikely to want to precipitate his government's first parliamentary defeat. Mr Davidson says he won't push for a vote if Mr Brown secures 12 big changes to the treaty, including scrapping the EU's foreign-policy representative.

However, Mr Brown's chances of winning any more concessions in negotiations due to culminate in October look very slim. Many in Brussels and among the more integrationist member states believe Britain secured an irritatingly favourable deal in June. And whereas Mr Blair was generally regarded as a good European, at least by British standards, Mr Brown enjoys little favour in the EU. His notorious indifference when attending Ecofin meetings as chancellor has been compounded by his failure so far to visit Brussels as prime minister.

Mr Brown is not the most transparent of politicians, and his views on Europe are especially unclear. Some in Brussels reckon his seeming dismissiveness reflects a disdain for diplomatic formality rather than an ideological euroscepticism. Others detect in his commitment to causes such as international development a belief that global bodies are better at getting things done than regional ones. There is also a suspicion that he inferred too much from his success in 2000 in getting the EU to tackle banking secrecy, rather than imposing an EU-wide withholding tax on bank accounts. Initially outnumbered, Mr Brown stood firm and won the day. He has, lament many in Brussels, shown the same obduracy ever since.

Whatever his own views, Mr Brown's dilemma is profound. Calling a referendum could put a chill on Britain's relations with Europe for the rest of his premiership, and losing it might even force Britain to review its EU membership. Not calling one, however, risks alienating public opinion (around 80% of people say they want a vote), throwing away the hard-won support of the right-wing press and undermining Mr Brown's claim to be a more consensual leader than his predecessor.

Neither is there much hope that outside events will save him as the French and the Dutch did Mr Blair, though many in the government privately hope that the treaty will be defeated elsewhere. Mr Brown, it

seems, will have to draw straws—and pray that he grasps the right one.

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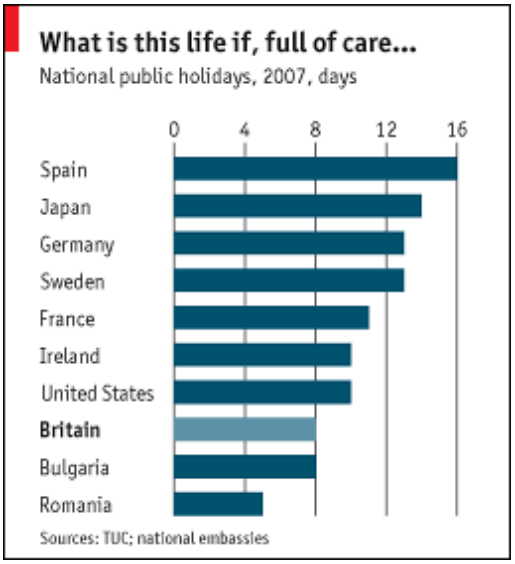
Public holidays

An idle proposal

Aug 30th 2007
From The Economist print edition

The case for more time off

Infographics



THE public holiday on the last Monday of August marks, in most British minds, the unofficial end of summer. A vast migration takes place, as millions take advantage of the long weekend to visit seaside resorts or fly to Europe in a final spasm of sun-seeking cheer. Once the festivities are over, gloom descends: workers face four months of uninterrupted slog until Christmas Eve, their next official day off.

This depression often provokes calls for more public holidays, and this year the clamour has been louder than usual. David Cameron's caring new Conservatives have been forced to deny rumours that they would recommend three new public holidays. Earlier in the summer, two ministers suggested a worthy sounding "Britain Day", intended to instil civic pride. On August 27th the Institute for Public Policy Research, a worthy leftish think-tank, called for a new day off to "celebrate community heroes".

To the idlers, the case for more time off looks persuasive. By European standards at least, Britain is a nation of workaholics, with only the Austrians labouring as many hours per week. Workers are entitled to 20 working days of leave a year, the European Union's required minimum. Other countries are more generous. France and Denmark give at least 25 days in leave, and many Finns get 30. Britons celebrate a measly eight national holidays a year; in Europe only the Romanians, with five, have fewer (see chart). Even significant national events are celebrated grudgingly: the British were given two days off to celebrate the queen's Golden Jubilee in 2002, but had to forfeit an existing public holiday to make up for it.

National holidays are illogical as well as scarce. The queen's official birthday (a moveable feast unrelated to her date of birth) is seen as a good excuse for a holiday in most of Britain's former colonies, but not in Her Majesty's homeland. Distribution is also badly skewed: seven of the eight holidays fall between December and May, leaving only August's to break up the rest of the year.

There are plenty of things that a new holiday might celebrate. Patriots suggest that England should honour St George (the patron saint of the place), just as Scotland takes time off for St Andrew. The historically minded argue for a Magna Carta day, whereas the politically correct suggest holidays celebrating "communities" and "volunteering".

Sadly, not everyone is keen on increasing public holidays. The CBI, a business lobbying outfit, points out that statutory leave is already planned to rise to 28 working days by 2009, and says that an extra public holiday would cost up to £6 billion ($12.1 billion). In the face of such hard-nosed objections, concerns about leisure and the quality of life may seem woolly and idealistic. But there is one concrete benefit that should be obvious to politicians, at least—what else could be such a sure-fire vote-winner?

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Early education

The father of the man

Aug 30th 2007
From The Economist print edition

Is having more spent on him than ever, but to no apparent effect

SOME will cry and clutch at their mothers' skirts, others will trot off without a backward glance. That is as it always has been. But over the past few years, the four-year-olds starting school each autumn have changed in one important respect: the amount of money that taxpayers have spent on readying them for the big day.

According to Beverley Hughes, the minister for children, the government has spent more than £21 billion on new schemes for pre-school children since coming to power in 1997. One such is Education Action Zones, a programme launched in 1998 that provides extra money to improve education in poor areas, including support for pre-school children. Another is Sure Start, which was set up in 1999 to help poor children and their families and offers everything from breast-feeding support to baby massage and advice on out-of-work benefits. The largesse has not been restricted to poor children. Since 1998 all pre-schoolers have been entitled to some free nursery care once they turn four, and in 2004 that entitlement was extended to three-year-olds.

Yet a big independent study published on August 28th has found no evidence that children are starting their education any better prepared than they were before. Every autumn for the past six years, researchers from Durham University have given a 15-minute test to around 6,000 four-year-olds just after they have started school. This assesses such matters as a child's ability to write his name, and to listen to three words and pick out the one that rhymes with a fourth. Previous research has shown that the test is useful for predicting later school performance.

Despite a 40% rise over the period in the number of children attending nursery before starting school, there has been no perceptible change in the number who do well on the test, and the gap in attainment between rich and poor children is as wide as ever. Both findings are puzzling, given strong international evidence that pre-school care can ease the process of starting school and improve educational results, particularly for poorer children.

One possibility is that the extra spending has indeed provided more care, but of dubious quality. On August 29th Ofsted, the schools inspectorate, published its annual report on the standards of pre-school care. It found that only 57% of child-care providers offered a service that was good or outstanding. Another 39% were merely “satisfactory” (which in Ofsted jargon means not good enough) and 4% were “unsatisfactory” (which means terrible).

Another possibility is that the money is not reaching the intended target. Anecdotal evidence suggests that, even though Sure Start centres, for example, are located in poor areas, their offerings are taken up enthusiastically by middle-class families living nearby. “The Durham research may point to continuing problems in ensuring that poorer children get the early-years care and education they're entitled to, rather than to a failure of early-years education to deliver educational benefits,” says Maxine Hill of the Daycare Trust, a child-care charity.

The findings are particularly noteworthy for another reason too. The technique used—setting the same test for a sample group of children every year—provides a useful way to evaluate government claims that education is getting better. In 2005 the same team used a similar method to show that 11-year-olds' literacy and numeracy were not improving as fast as national test results indicated.

Supporters of pre-school education urge the government not to be blown off course. Benefits may be more apparent as programmes become established and hard-to-reach families most in need of help get drawn in. But the findings challenge the notion that providing extra facilities in poor areas is enough. A more targeted approach may well be needed.

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Illegal immigrants

In from the cold

Aug 30th 2007
From The Economist print edition

The Liberal Democrats propose a managed amnesty

Get article background

AFTER George Bush failed ignominiously in his attempt to grant amnesty to illegal residents in America, it is a bold politician who proposes a similar idea in Britain. Nick Clegg, the Liberal Democrats' spokesman on home affairs, is not quite the first to try his luck: Alan Johnson and Harriet Harman both floated the idea during their bids to become deputy leader of the Labour Party earlier this year. His pitch is, however, the most considered.

Mr Clegg's proposal, in a newspaper column on August 26th, to "regularise" some of Britain's illegal residents—thought to number between 300,000 and 900,000—is hard to portray as a blanket amnesty. For one thing, it would be available only to those with clean criminal records who have lived in the country for "many years", though the exact threshold has yet to be defined. Furthermore, applicants would have to pass a civics test and demonstrate either a proficiency in English or a willingness to learn it. A fee would also be levied, though it is expected that this would generally be rendered in the form of community service.

With these conditions, the plan looks more credible than the government's commitment to deport all illegal immigrants, something which at the current rate would take at least 25 years. It may also be more humane: giving such migrants legal status should make it easier to protect them from people-trafficking, low pay and other forms of exploitation.

There are economic advantages too. Deporting people is expensive: the National Audit Office puts the average cost at £11,000 per person, including nabbing and detaining them and paying their legal fees. The taxes that would be generated by taking illegal workers out of the black market would help to pay for some of the public services that they use (the Institute for Public Policy Research, or IPPR, a think-tank, puts the extra taxes at £1 billion a year, though other estimates are higher). Local authorities are obliged to provide education for children aged from five to 16 regardless of their immigration status; illegal migrants are required to pay for treatment on the National Health Service, but this is difficult to enforce in practice.

Yet none of its good points will prevent Mr Clegg's plan from being controversial. An obvious objection, raised by both the Labour government and the Conservatives, is that an amnesty would encourage others to enter Britain illegally. The Lib Dems concede that this may have been the case in Spain, which has extended several amnesties over the past 20 years. But they note that most of these were far less stringent than Mr Clegg's plan. Moreover, Britain, which has traditionally relied on its island geography to act as nature's own border-enforcement policy, is introducing a border force, electronic tagging of asylum applicants and biometric identity cards. The IPPR's Danny Sriskandarajah argues that such measures will limit Britain's vulnerability to a new wave of entrants emboldened by an amnesty. Yet evidence from America suggests that these sorts of controls are not without perverse incentives of their own: tougher enforcement along its border with Mexico resulted in more illegal immigrants staying in America rather than moving periodically between the two countries.

Mr Clegg admits that his party has often been quiet on the issue of immigration. Too lax a policy would lose votes, whereas a hard line would offend both the social-democratic and classically liberal wings of the party. Yet the perceived failure of the government to deal with immigration and the Tories' relative reticence on the matter until now (David Cameron seemed to change tack a little this week when he said in a television interview on August 29th that immigration was "too high") have given the Lib Dems an opportunity to take a lead on the issue. Mr Clegg's idea, though some way from being fully formed, is an impressive attempt to seize it.

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Supermarket competition

Shopped by their suppliers

Aug 30th 2007
From The Economist print edition

A look at whether big grocers are abusing their market power takes a new turn

IN SCENES that would not look out of place in a Mob investigation, or at least in television's "The Sopranos", Britain's 15-month-long probe of supermarkets' alleged anti-competitive behaviour has taken a surprising turn. For months investigators from the Competition Commission, an anti-monopoly watchdog, have spoken of the "culture of fear" that is holding back farmers and other small suppliers from providing evidence of threatening behaviour by the big supermarkets to which they sell their goods. Despite promises to protect the anonymity of those who come forward, few have heeded the call.

So earlier this month, with six weeks to go before the commission was due to release its provisional findings, it ordered two of the country's biggest supermarkets, Tesco and Asda, to hand over millions of e-mails. Investigators want to read exchanges between the supermarkets and their suppliers in June and July, when both chains cut the prices of thousands of products, to see if there is evidence of bullying that would suggest supermarkets have been abusing their power as large buyers.

The seizure of e-mails marks more than the escalation of a probe in which until now the gumshoes have trodden lightly. It also represents a shift in its focus. The commission began by looking mainly at whether the growing power of Britain's four biggest supermarkets was good for consumers. The logic was that as long as supermarkets were competing effectively with each other—which meant squeezing their suppliers to lower costs, among other things—consumers would be better off.

Now a different concern is growing: whether supermarkets have become so powerful that they are damaging the profitability of farms and food manufacturers, driving some out of business and discouraging investment and innovation by the rest. That might well reduce consumer choice. This week a group of MPs and an alliance of green organisations, small shops, charities and farmers called for a new regulator to police supermarkets and their dealings with suppliers.

Critics point out that pricing power has shifted sharply from producers to retailers. Take milk production. Mark Hill of Deloitte, a consulting firm, reckons that in 1996 a farmer received 57% of the price of a pint of his milk sold in a store. Today only 37% goes to the cow's keeper. Retailers, in contrast, now keep some 30% of the selling price, compared with 5% a decade ago. The consequences for many farmers have been catastrophic: the number of dairy farms in Britain fell by more than 40% between 1995 and 2005. But it is clear neither that supermarkets are to blame for this—the price of milk is largely determined by global commodity markets—nor that consolidation is bad for the industry as a whole. Herd sizes and incomes on the remaining farms are up.

Food processors and other sorts of suppliers have also felt the supermarkets' might. The commission has described how supermarkets change prices and cancel orders at the last minute, which could discourage suppliers from investing.

Yet other evidence suggests that supermarkets' allegedly nasty habits have had quite the opposite effect. Food manufacturers spend more on research and development as a share of sales now than they did five years ago, and the commission's own work suggests that most are in rude financial health. Profitability has improved over the past decade, and the largest suppliers have average pre-tax margins of about 10%, a figure nearly twice as high as Tesco's margin of 5%. Insolvency filings by food- and drink-makers have fallen since the early 1990s.

Such facts do little to mollify critics of supermarkets, who fret that what is at stake is the shape of Britain for generations to come. "Different forms of business carry with them a kind of DNA for society," says Andrew Sims of the New Economics Foundation, which is campaigning for curbs on the giant grocers. "Supermarkets have expansion plans for out-of-town retail parks that will suck the heart out of communities and we are presently sleepwalking into a future where you can shop wherever you like, so long as it is at Tesco." Dark thoughts indeed.

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Economist.com WORLD INTERNATIONAL

The politics of mosque-building

Constructing conflict

Aug 30th 2007
From The Economist print edition

AFP

In many Western cities, plans to erect mosques often stir more passion than any other local issue—and politicians are leaping into the fray

Get article background

NOT since Cologne was rebuilt half a century ago, out of the rubble of war, has a change in the urban landscape generated so much heat. A city whose main landmark is a medieval cathedral may soon share its skyline with another place of worship: a large mosque with minarets more than 50 metres (165 feet) high.

While the city's (mainly Turkish) Muslim population of over 120,000 is looking forward to the new building—a sign, perhaps, that it has finally put down roots in a country that long treated migrant workers as guests—Cologne as a whole is deeply divided. A poll found that 36% of residents were happy with the mosque plan, 29% wanted to see it scaled down and 31% were entirely against it. The “no” and “yes” camps are not just passionate, they are diverse. Those who approve the plan include many Roman Catholic clergy. But a far-right party, “Pro Cologne”, which holds five of the 90 seats in the city council, has done well by drumming up opposition to the mosque. Also prominent among the “noes” (while distancing himself from Pro Cologne) is Ralph Giordano, a German-Jewish writer and Holocaust survivor, who stirred a national debate by issuing a stark message: “I urge the mayor and the members of the city council to stop the building of this mosque!”

His comments dismayed Germany's four main Muslim associations, all of which have headquarters in the city. Whatever its importance to other faiths, Cologne is a sensitive spot for German Islam. It produced Metin Kaplan, a militant cleric known as “caliph of Cologne”, who was convicted of incitement to crime and extradited to Turkey in 2004. The would-be builders of the new mosque are at the other end of the respectability scale: the Turkish Islamic Union for Religious Affairs (DITIB), an arm of the Turkish government.

All over the Western world, mosques and mosque-building plans are generating passionate arguments, particularly in local and municipal affairs. In many cities, both opponents and supporters of Muslim construction projects have realised that this issue engages voters far more than drains or libraries do.

In the east London borough of Newham, for example, proposals to build a “mega-mosque” to accommodate at least 12,000 worshippers have divided local people (of whom at least a quarter are Muslim) and drawn global attention. British Muslims have been lining up for or against Tablighi Jamaat, the conservative missionary movement behind the mosque. Some are dismayed at the thought that this

hard-line group could soon become one of British Islam's most obvious faces, only a stone's throw from the site of the 2012 Olympics; others defend the movement's right to build, noting that Newham's existing mosques are visibly overflowing during Friday prayers.

In Newham council, a new party—the Christian Peoples Alliance—has sprung up, mainly to articulate non-Muslim resistance to the mosque. And on the website of Gordon Brown, the prime minister, an experiment in e-democracy had an awkward result: some 277,000 people used a click to register their opposition to the mega-mosque, much the biggest sign of voter interest that the site attracted.

In many places, the accommodation, both literally and metaphorically, of Muslims and their religious needs has led to some strange coalitions. In Boston in June, the capping of the minaret on a new mosque turned into an emotional celebration by 2,000 Americans, hailing the end of several years of conflict and litigation. The Islamic Society of Boston had in 2005 filed a defamation suit against pro-Israel groups and media outlets that accused the mosque's sponsors of extremist links. But liberal Jews and Christians helped solve the dispute; some hailed the fact that a Bostonian tradition of Jewish-Christian dialogue had been extended to Muslims.

AP

Nearly ready: Boston's hard-won house of prayer

The terms of the mosque debate vary widely: in the United States, mosque projects often meet practical objections, to do with “zoning”, water supplies or parking, but they are usually overcome, helped by a legal system that protects all faiths. In southern European countries like Spain and Italy—where attachment to Catholic symbolism is strong—people are much blunter about expressing their objections in cultural terms: this is a Christian land, and mosques have no place here.

In Rome, on August 21st, police halted work at a site on the Esquiline hill, in an area with a high immigrant population. The sponsors of a planned mosque there were found to have begun work without seeking permission from the local authority. The new building was to have gone up just a few metres from a Catholic church; for some, that was the most important point. A spokesman for a new far-right movement, La Destra, called it “an insult to Christian culture”.

Reza Aslan, a Californian writer on Islam, says that to his American eyes the intensity of openly “Islamophobic” opposition to mosques in parts of Europe, especially the south, is a shock. “It's as though some Europeans are confused about their identity and are now trying to construct one in opposition to Islam.”

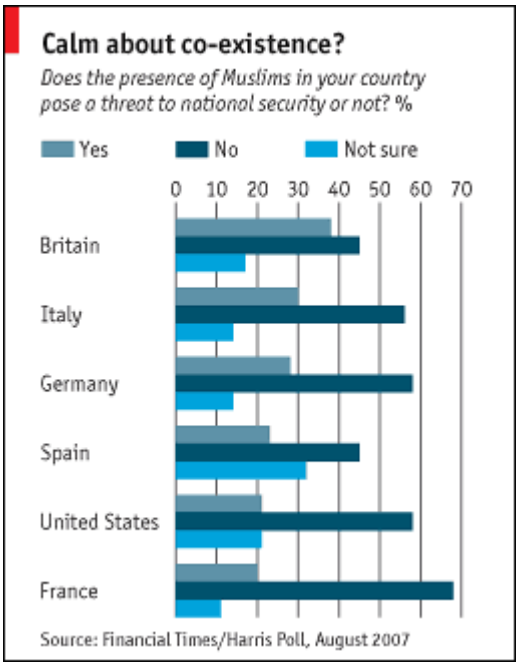
But California is itself no paradise for Muslims: a mosque near San Francisco has just been burned down. Christina Abraham, a civil-rights lawyer in Chicago, says mosque builders around her city often have to work twice as hard as other religious groups to get the necessary permits, even though they do eventually get their way. One mosque in the Chicago area faced an apparently malicious regulation which banned parking for three hours on Friday afternoons—the time when worshippers were arriving. Lawyers successfully challenged the rule, on grounds of religious discrimination.

In some European countries—like Germany—the atmosphere faced by would-be mosque builders varies a lot, even within cities. Berlin is one example. In the western district of Kreuzberg, Turkish migrants and their prayers have been part of the scene for decades. But in the capital's east, local residents and politicians from the far-right NPD party are leading loud protests against the building of the first mosque

in the ex-communist part of the city. In Munich, meanwhile, the conservative government of Bavaria is locked in battle with the centre-left dominated city hall over the plan for a new mosque. For now, the conservative opponents seem to be winning; a local court has called the current plan incompatible with the surroundings.

If controversy over mosques is getting louder in Germany now, that may be because the Turkish community has only recently started claiming citizenship and the right to vote. On the other hand, a much higher share of France's 5m Muslim residents is enfranchised; and yet in some French town halls, the politics of mosque-building are explosive. In Marseille, which is home to 200,000 Muslims but also a bastion of the far right, arguments over the construction of a large mosque have dominated city debates for years. The municipal council voted in July to go ahead, overcoming a raft of legal objections from the far right, which said the Muslim builders got public land (an old abattoir) too cheaply. This week the far-right said it would mount a fresh legal challenge, on grounds that the price being paid for the land was still not enough.

Opponents of mosque building in Europe often claim that the number of mosques is rising much faster than the number of Muslims. That is a hard proposition to test. Statisticians cannot even agree on the definition of a mosque. Idriss Elouanali, editor of the “Yearbook of Mosques” in France, says that in his 2006 survey he used two definitions: first, he counted roughly 100 purpose-built mosques, and then 1,525 prayer rooms, big enough to have Friday sermons with a recognised imam. The combined figure of 1,625 was 75 up from the Yearbook's first edition in 2003, hardly a surge. But Mr Elouanali points out that in the late 1970s, France had fewer than 50 prayer spaces. In the United Kingdom, says Inayat Bunglawala of the Muslim Council of Britain, the number of mosques has jumped in the last 20 years from under 400 to 1,699 registered places of prayer today.



Alexa Färber of Berlin's Humboldt University sees a more qualitative change. Between 1998 and 2006, the number of mosques in Berlin grew from 66 to 76—a smallish rise. However, during those eight years 18 mosques moved location within Berlin: this added to people's perception that mosques were proliferating. More importantly, Ms Färber points out, 21 Muslim groups bought rooms or buildings, which in many cases had been rented before. These purchases usually went along with embellishments such as minarets. No wonder many people think Muslim worship is growing more visible.

One explanation for the delayed building boom in Germany, argues Ms Färber, lies in the cultural obstacles faced by first-generation migrants. With a limited knowledge of their host country, they had to wait for their children and grandchildren, who grew up in Germany and understood the system better, to promote their interests. “Now there are more Turkish architects, lawyers or engineers who help to build mosques,” she says.

Recently some Western governments have started to work more closely with Muslim minorities and encourage the building of new mosques. So why do so many conflicts persist? In fact, for every mosque that is impeded, many other projects go ahead. Moreover, as Mr Bunglawala notes, national politicians can only set the tone of the debate; actual decisions are taken by local councils. This distinction has become apparent in the German city of Duisburg, north of Cologne, where the local DITIB branch is also building a large mosque. There, thanks to good co-operation between religious communities and better communications, construction is going ahead much more smoothly.

Despite such local contrasts, Jocelyne Cesari from Harvard University argues that there are national patterns at work. “In places with a long history of immigration, such as France, Britain or Belgium, resistance to mosques is losing its force,” she believes. In contrast, opposition is stronger in Spain or Italy, where Muslim immigration is relatively new.

If Ms Cesari is right, then it may be that reaching a reasonable accommodation between Muslims and non-Muslim majorities over issues of urban planning is only a matter of time. Is that too optimistic? It may well be true that in many countries, Muslim and non-Muslim elites will get better at understanding one another. But the question is whether grassroots politics will evolve at the same pace. Given the dividends that some local politicians are reaping from backing mosques, or opposing them, that seems a

less sure bet.

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Economist.com WORLD INTERNATIONAL

Primary health care

In the land of the blind

Aug 30th 2007 | KISANGANI, CONGO
From The Economist print edition

The commonsense case for "amateur" medicine

SELF-SUFFICIENCY is a way of life in the Democratic Republic of Congo's rural expanses. It has to be. Even the most accessible of the many villages that dot the dense rainforest—the ones connected to regional towns by spindly tracks that pass as main roads—get little government support. Yet in these unpromising conditions, one of Africa's more successful public-health programmes is not only surviving but thriving. The idea is to harness people's existing culture of self-help and get subsistence farmers to carry out simple medical tasks which are beyond the capacity of a pathetically inadequate health system.

For the Geneva-based masters of the World Health Organisation (WHO), encouraging self-help (by people with no formal training in medicine or nursing) is at once a lofty principle, to be expounded in academic journals and conference papers, and the only approach that has a hope of succeeding in chaotic circumstances like those of Congo. For a decade, WHO has been applying the concept of self-help to one specific problem: the elimination from Africa of river blindness, or onchocerciasis, a disease caused by parasitic worms, spread between humans by blackflies. But if the lessons were properly applied, the idea could have a much broader application for places where war, anarchy or simply poverty make it impossible to set up a formal medical system.

In Congo alone, the organisation has recruited more than 35,000 community workers for its river-blindness project; they get nothing for their labours except the knowledge that they are protecting their families from disease.

Volunteers from each village are taught how to measure out the annual drug doses, fill in the obligatory record forms, and watch out for side-effects. WHO supplies the drugs and the villagers do the rest themselves. WHO was forced to devise the strategy after it received an offer from Merck, a pharmaceutical firm, of free supplies of a drug to people at risk of river blindness.

Uche Amazigo, who directs the organisation's African Programme for Onchocerciasis (APOC) in 16 countries, says the principle could be applied to many problems in many countries, especially in Africa where the number of health professionals has been decimated by emigration and, in some places, AIDS. Death rates from treatable conditions such as diarrhoea, malaria, measles and respiratory infections are shamefully and avoidably high because of a shortage not of drugs but of health workers. The deficit could be made up in part by teaching sufferers and carers to do simple things for themselves.

Dr Amazigo says community workers trained through her river-blindness programme could do a lot more; they could distribute vitamin supplements, deworming drugs, vaccines and malaria treatments to villages that have hitherto been deemed beyond the reach of medical help. This approach would free up paid health staff to do the urgent or complex work that needs special training, she thinks.

Margaret Chan, WHO's director-general, has said as much herself. She has given vocal support to what she calls "horizontal" approaches that improve general health in poor countries—as opposed to glamorous top-down programmes that focus on one disease. That is one of the things that marks Dr Chan out from her predecessor, Lee Jong-wook, whose pet project was a high-profile anti-AIDS programme, "3 by 5"—which aimed to treat 3m HIV-positive people with antiretroviral drugs by the end of 2005.

Putting more emphasis on general health and "amateur" care might sound like common sense, but advocates like Dr Chan or Dr Amazigo may well have some tough arguments ahead. For some African governments, single-disease efforts may seem like a more tempting focus when hard choices have to be made.

And the self-help school has problems. To train, and maintain, hundreds of thousands of community

workers takes time, patience and money. APOC's mandate is for river blindness alone; it lacks the funds to expand the project to other diseases. Only if African governments endorse the idea will it have any future. Some have; in Uganda, where APOC has operated for over ten years, the government was impressed by the ability of community workers to supplement the health system, and has changed its policy accordingly.

APOC stopped providing any funding two years ago, but the Ugandan authorities stepped in and kept the network of community workers going. Dr Amazigo hopes that other governments in Africa will follow suit. But time is short.

The river-blindness programme that has been training all the community distributors is due to close in 2015. If African governments, meeting in Brazzaville (capital of the other Congo) this week to talk about primary care, don't step in to replace APOC's funding, the community system will lapse. Some newly trained villagers will have no medicine, vitamins or equipment to practise their hard-won skills.

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Business in France

The long arm of the state

Aug 30th 2007
From The Economist print edition

Reuters

The troubled GDF-Suez merger highlights the extent of French state ownership

Get article background

ONE of the first things Nicolas Sarkozy did upon taking office as president of France in May was to visit the headquarters of Airbus, in Toulouse. His aim was to broker a deal with Angela Merkel, Germany's chancellor, to simplify the odd bicephalic leadership structure at Airbus's parent company, EADS. This push from Mr Sarzoky led to a more sensible regime, with a Frenchman running EADS and a German at the controls of Airbus. After a holiday in America, Mr Sarkozy was this week keen to display his determination to bring about another tricky rapprochement: between French business and the Anglo-Saxon model of global capitalism.

On August 30th he became the first ruling head of state to address the Medef, France's leading business organisation. Having already pushed through some labour-market reforms, Mr Sarkozy used his speech to the bosses to lay out the second stage of his economic reforms, including a wholesale review of tax and social-security contributions, with the aim of further loosening the labour market and getting unemployment down from 8% today to 5% by 2012. Also this week he told French ambassadors to go out and tell the world that he is determined to modernise France and efface its image as rigid and protectionist.

Even as Mr Sarkozy outlined his march towards a more liberal economy, however, other events conspired to emphasise how far France has to go in one respect—the state's hold on industry. The president was called upon this week to smooth the path of the long-stalled merger between state-owned Gaz de France (GDF) and Suez, a private Franco-Belgian energy and environment group. The bosses of GDF and Suez have been planning the tie-up for five years, but powerful unions at GDF persuaded politicians to obstruct the deal.

Official attitudes changed when Enel, an Italian energy firm, made a hostile bid for Suez. Dominique de Villepin, the prime minister at the time and Mr Sarkozy's political arch-rival, then embraced the Suez-GDF merger as a means of fending off a foreign predator. But a procedural hitch delayed the deal late last year, and it got caught up in the general paralysis of the presidential-election campaign.

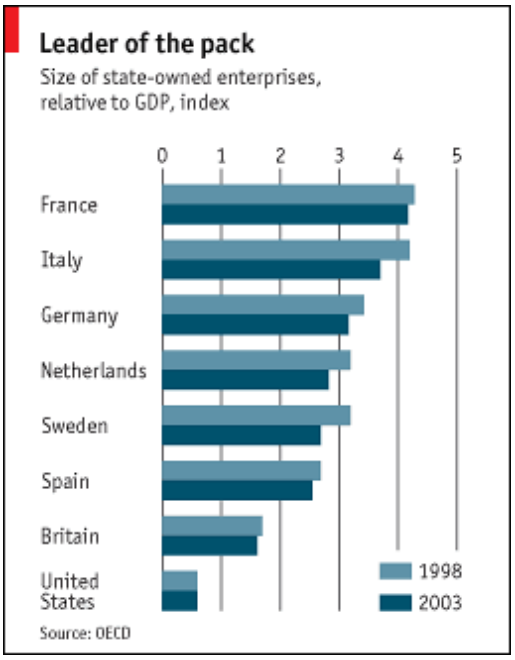
Now the deal is back on. But there is a twist. Mr Sarkozy wants Suez to shed its environment division to bring the two firms to an equal size, thus preserving the size of the state's stake in the merged business. He wants to distance himself from a project cooked up by his old political enemy, it seems, while also limiting the state's interest to energy and avoiding a dilution of its stake. Suez is reluctant to play along.

But if it backs out, Enel will step in again.

So Mr Sarkozy finds himself having to sort out another tricky industrial problem, and hoping to repeat his success at Airbus. It is no wonder that French political leaders get sucked into such matters: the tentacles of the French state stretch deep into the country's industry. The nationalising state and its successor, the privatising state, have been succeeded by the blander-sounding shareholding state. The French approach to privatisation has been to convert state firms into proper limited and listed companies, but with the state keeping big slices of the shares in key firms, and small holdings in others.

As a result, despite two waves of privatisation in the late 1980s and mid-1990s (returning to private hands 36 firms and banks nationalised under the socialists in 1982), the size of French state-owned enterprises, relative to the economy, is still the highest in western Europe (see chart). Include businesses where the state owns minority stakes above 10%, and no less than one-tenth of the French economy is partly state-owned. The value of state-owned enterprises' assets is around $400 billion, compared with just over $30 billion in Britain. State-owned firms employ about 5% of the total workforce, compared with less than 1% in Britain. Indeed, with 1.3m workers, the state sector in France employs some 200,000 more people today than after the great wave of post-war nationalisations in 1945-46.

A special agency, the APE (Agence des participations de l'Etat), oversees holdings in some 70 of the more important firms, such as France Telecom, Renault and Air France. The state is particularly strong in the defence and aerospace industry, holding key stakes in EADS, Safran/Snecma (an odd jet-engine/computing hybrid) and Thales, a defence-electronics firm.



Even below the radar of the APE, state-owned banks and firms have small stakes in other companies. Gérard Mestrallet, the boss of Suez, cunningly points out that if such state-owned bodies transferred their holdings in Suez (which amount to just under 7%) to GDF, the gap in the two companies' valuations would be closed, solving Mr Sarkozy's problem. Mr Mestrallet is anxious to get some movement, because clearance for the merger from the European Union expires at the end of September. It is an indication of the fraught nature of the political-industrial complex in France that it cannot even keep up with the slow pace in Brussels.

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Jaguar and Land Rover

Beauty on the block

Aug 30th 2007
From The Economist print edition

A new car and six potential buyers signal hope for Jaguar

EMOTION is said to play a part in many car purchases, but it is less likely to be a factor when buying a car company. Even so, the reaction this week to the first pictures of Jaguar's new XF saloon (pictured) will have done nothing to still the beating hearts of the half-dozen or so likely bidders for Jaguar and Land Rover, the two British marques being auctioned together by their beleaguered owner, Ford.

It would be hard to exaggerate the importance to Jaguar of the XF, which is certain to be one of the stars of the Frankfurt motor show in September. It represents a complete design departure from the frumpy "retro" look with which Jaguar has saddled its often well-engineered saloons for the last decade. If the XF's swooping lines and elegantly modernist interior are a hit with younger customers who would never previously have thought of owning a Jaguar, then the firm, under new ownership, may have a future after all.

But who will buy it?

Although Ford has refused to name the prospective buyers, they include Tata Motors (a division of Tata Group, an Indian conglomerate), probably another Indian car company, Mahindra & Mahindra, and at least four private-equity firms. These include Cerberus Capital Management (which relieved Daimler of Chrysler), One Equity Partners, Ripplewood Holdings, and Texas Pacific Group.

All the bidders are now deep into due diligence as they prepare to table non-binding offers at the end of September. As well as poring over the books, they are touring facilities and examining plans for future products. They are also competing in a beauty contest for the backing of potentially hostile unions, which fear for the jobs of 19,000 members employed in several British factories. Ford is publicly confident of concluding a sale by early next year at the latest. But reaching a sensible valuation of the two marques, which Ford says must be sold together because their operations have become so tightly integrated, is not proving easy.

Judging how far the XF will halt the slide in Jaguar's fortunes—its sales have fallen by almost half from a peak of 130,000 a few years ago—is only one question among many. How long will the weak dollar eat into the sales and earnings of both makers? Is it necessary to have three factories and a separate design centre to build fewer than 270,000 cars a year? What will happen to Jaguar and Land Rover, which make relatively big and thirsty vehicles, if the European Commission goes ahead with its plan to impose upon car manufacturers an average CO_2 emission target of 130g/km by 2012? And how will the onset of a global credit squeeze affect what private-equity groups can pay for a capital-intensive business with a time horizon of three to five years?

The answer to the last two questions may depend on the kind of deal that Ford is prepared to do. All the possible bidders seem likely to want something similar to that wrung from Daimler by Cerberus. The German firm not only agreed to hold on to a 20% equity stake in Chrysler, but also provided substantial financing. Any new owner will want to ensure that Ford retains an interest in the future of the business, in part because it may be possible to persuade the commission to count Jaguar and Land Rover as part of Ford's bigger and more economical range for the purpose of measuring emissions.

As for Ford, its priority is just to get a respectable deal done. Alan Mulally, its chief executive, is adamant that running luxury brands has no part in the company's future. He also concedes that the credit market's tightening "absolutely is an issue". Lovely though the XF may be, Mr Mulally wants someone else to be its proud owner as soon as possible.

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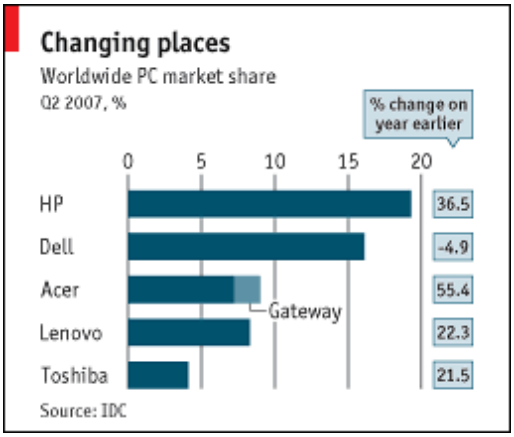
Personal computers

There's life in the old dog yet

Aug 30th 2007
From The Economist print edition

The PC industry is proving to be surprisingly lively



WHEN the personal computer (PC) turned 25 last year, many anniversary articles read like obituaries. There was general agreement that the PC had become a commodity product, its makers mere box-shifters, and that growth prospects were mediocre. Further consolidation was all the industry had to look forward to. The announcement on August 27th that Acer, a Taiwanese PC-maker, would pay $710m to buy Gateway, a smaller American rival, seems to fit that picture.

The combined firm will be the world's third-largest PC-maker by unit shipments. Acer will have the size and global presence to compete with the two American heavyweights, Hewlett-Packard (HP) and Dell, as well as Lenovo, a Chinese firm which will drop to fourth place if the deal goes ahead (see chart). But the takeover also shows that there is still life in the PC business—and will be for years to come.

Worldwide PC shipments have lately been growing by about 12% a year—better than expected, though still a far cry from the late 1990s, when the industry sometimes grew at more than twice that rate. Yet this figure does not do justice to the market's current dynamism.

This year the number of PCs sold will reach an all-time high of nearly 260m. Much of the growth is being generated by consumers and small businesses. Both increasingly prefer laptop PCs to desktops; in some countries, such as Japan, the former already outsell the latter. In America, the world's biggest PC market, this will happen by the end of the year, according to IDC, a market-research firm. Above all, emerging economies such as China and India are making manufacturers happy: their rising middle classes and small businesses have discovered the PC. In China, shipments are growing nearly four times as fast as in America.

Only two years ago most industry observers would not have dared to predict that HP would be best placed to benefit from these growth opportunities. But today its well-designed machines, distinctive marketing and vast network of retail partners appear to be just what the doctor ordered. Consumers are quite willing to order desktop machines online, but they prefer to touch laptops before buying them, since they are much more of a fashion statement than a beige box under the desk, says Charles Smulders of Gartner, a market-research firm. HP is also present worldwide, notably in China, where it is the number two behind Lenovo.

No less surprisingly, Acer is similarly well placed, having staged one of the more stunning turnarounds in the PC industry after an ill-fated attempt to enter the American market in the 1990s. Like HP, it sells through retail and has put an emphasis on design and marketing. Buying Gateway will boost Acer's presence in America. In Europe, meanwhile, it plans to acquire Packard Bell, a PC-maker based in the Netherlands. Lenovo has been in talks to buy Packard Bell, but Gateway says it intends to exercise an option, obtained last year, to purchase the firm.

In contrast, the market has been moving away from Dell, once the industry leader. Its hyper-efficient supply chain and online-only sales model were perfect when corporate customers were driving growth. But competitors have cut costs and online-only is not enough when selling to consumers and in emerging economies. Having lost the top spot to HP, Dell has started to give itself a makeover: selling through Wal-Mart, a retail giant, for example, and adding colour to some products.

Lenovo, for its part, faces difficulties too. Since it acquired IBM's PC division in 2004, its main customers have been corporations. The firm is by far the leader in China and will continue to dominate this market,

thanks to its retail relationships and the fact that it does not outsource manufacturing. Yet Lenovo has been struggling to expand elsewhere.

Fortunes could always be reversed, of course. Consumers could lose their appetites for laptops and businesses might start to upgrade their ageing PCs to make use of Windows Vista, the new Microsoft operating system that so far has not managed to give the industry much of a boost. But this would not change the overall direction of the PC market. In its second 25 years, it will increasingly resemble the car industry. Cars may well be a commodity, but they come in all shapes and sizes, for every lifestyle and need. In future, PCs will also be more about taste and tailored products and much less about technology.

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Business education

All at sea

Aug 30th 2007
From The Economist print edition

A floating university prepares for its maiden voyage

THE *Oceanic II* has been cruising the oceans under various guises for more than 40 years, but her next voyage will be her most unusual. From September 5th the liner will become home to about 200 undergraduate and postgraduate students participating in the maiden voyage of *The Scholar Ship* (groan), a seaborne university. The renamed ship has been refitted with lecture halls, seminar rooms and a library to transform it into a floating campus. Wireless technology has been installed, providing access to an on-board intranet housing course materials and lecture schedules.

Starting in Piraeus, near Athens, students will spend 16 weeks on board, being taught courses such as international business and conflict studies. Sea-bound classes will be complemented by onshore activities. The liner will stop off in Lisbon, Panama City, Auckland, Shanghai and other places en route to its final destination, Hong Kong. A second voyage, taking a new batch of students to Europe, will start in January.

Start-up capital and cruise-industry expertise have been provided by Royal Caribbean Cruises, but those hoping for roulette wheels and sequinned cabaret singers will be disappointed. Students must organise their own social activities. Academic credibility is bestowed by a consortium of international universities. At the end of the voyage Australia's Macquarie University will award successful students credits that can count towards a full degree elsewhere.

Enrolment is not cheap: the September voyage costs just under $20,000. Take-up has so far fallen well short of an initial forecast of 600 students. Yet kooky as it sounds, the idea of an ocean-going campus does fit into wider trends. One is internationalisation. Whether opening campuses abroad or organising exchange programmes, universities are keen to burnish their multicultural credentials. Another hot trend is “experiential” learning—getting students out of the classroom into different environments.

A cruise ship scores highly on both counts, claims Mike Bonner, the venture's chief operating officer. The students, drawn from 35 countries, will find it hard not to mix with people of other nationalities. And if the passenger numbers do not increase, there is an obvious money-making fallback. Having lots of young people who do not know each other trapped in a confined space is a perfect reality-TV format.

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Municipal Wi-Fi

Reality bites

Aug 30th 2007 | SEATTLE
From The Economist print edition

American cities' plans for ubiquitous internet access are running into trouble

IT WAS supposed to democratise the internet and turn America's city-dwellers into citizen-surfers. In 2004 the mayors of Philadelphia and San Francisco unveiled ambitious plans to provide free wireless-internet access to all residents using Wi-Fi, a technology commonly used to link computers to the internet in homes, offices, schools and coffee-shops. Across America, hundreds of cities followed suit. Yet many municipal Wi-Fi projects have since been hit by mounting costs, poor coverage and weak demand. This week Chicago became the first big city to abandon its plans for a city-wide network. “Everyone would like something for free,” says Chuck Haas of MetroFi, a supplier of municipal Wi-Fi systems. But the numbers do not add up.

Most city governments did not want to build or run the Wi-Fi systems themselves, so they farmed the job out to specialist firms such as EarthLink and MetroFi. These companies initially agreed to bear all expenses, expecting to sign up 10-25% of each city's population for a fee-based wireless service. In some places this was to have been supplemented by a free service at lower speed, or supported by advertising. Some cities also planned to subsidise access for poor residents.

But municipal Wi-Fi schemes have been struggling to make ends meet. EarthLink, which runs networks in Philadelphia and New Orleans, recently admitted that “the Wi-Fi business as currently constituted will not provide an acceptable return.” This week the firm said it would lay off 900 workers, including the head of its municipal Wi-Fi division, the future of which is now in doubt.

The root of the problem is that city-wide Wi-Fi, which relies on outdoor radio transmitters, does not provide good access inside buildings, since it uses weak signals which do not always penetrate thick exterior walls. Proponents of the technology also underestimated the number of transmitters that would be needed to provide blanket coverage. Most networks deployed between 2004 and 2006 used between 20% and 100% more nodes than expected, which pushed up costs.

Worse, the networks that have been completed have attracted few users. Taipei's city-wide WiFly system, the largest such network in the world, was reckoned to need 250,000 regular subscribers by the end of 2006 in order to break even, but had attracted only 30,000 by April 2007. America's biggest network, around Tempe, Arizona, was aiming for 32,000 subscribers, but had only 600 in April 2006 and has not provided figures since.

EarthLink and MetroFi have responded by asking city governments to act as “anchor tenants” and agree to spend a guaranteed sum on the service. Minneapolis and Portland, Oregon, accepted such contracts from the beginning; their Wi-Fi schemes are proceeding relatively smoothly. But most cities have balked at the change. Chicago's plans foundered when EarthLink and AT&T, the two firms bidding to build its network, demanded anchor-tenant commitments. MetroFi has lost four contracts since April after asking municipalities to subscribe upfront. The consortium planning to build a Wi-Fi network across 1,500 square miles (3,885 square km) of Silicon Valley also wants to switch to an anchor-tenant model.

One problem with the anchor-tenant approach is that few municipalities are in a position to do much with the networks. Despite vague talk about wireless parking meters and enabling building inspectors to submit reports using Wi-Fi hand-helds, most cities lack the back-office systems needed to do such things. “You're building them a better track,” says Craig Settles, a telecoms consultant, “but they don't even have running shoes yet.”

The one bright spot for municipal Wi-Fi is public safety. After the terrorist attacks of September 11th 2001, governments at all levels in America set about improving communications between emergency workers. Dedicated radio spectrum has been set aside, and several cities have built Wi-Fi networks to transmit images from surveillance cameras and the like. The hope is that separate systems providing internet access can piggyback on these networks, as EarthLink has done with a Wi-Fi system originally

built for public-safety purposes in New Orleans. Equipment providers now make nodes that put both the necessary transmitters into a single box, making such roll-outs cheaper.

Some cities will be able to make this approach work, and may then be able to offer their residents free, or at least relatively cheap, Wi-Fi access too. But many others will not, and will have to follow Chicago in abandoning their utopian dreams of city-wide networks. With Wi-Fi, as with most things, you get what you pay for.

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Chinese gambling

Macau wow

Aug 30th 2007 | MACAU
From The Economist print edition

The world's largest casino attracts thousands of eager Chinese punters

ITS construction involved filling in the sea between two of Macau's islands to recreate the Las Vegas strip, and then carefully cutting out tiny canals to provide at least a hint of Venice. On August 28th the Venetian Macau, the world's biggest casino, opened its doors to an ocean of people eager to get to its tables.

AP

Your table awaits

A packed ceremony in the casino's 15,000-capacity arena culminated in Diana Ross singing “Ain't No Mountain High Enough”—reflecting, perhaps, the hopes of both the gamblers with their stacks of chips, and the firm behind the casino, Las Vegas Sands. It would be hard to find a project more amenable to hype, or an industry less shy about disclosing its extravagance. The enormous building, Asia's largest, required 20,000 construction workers and 3m sheets of gold leaf. Running it takes 16,000 employees and enough power for 300,000 homes. Construction costs swelled from $1.8 billion to $2.4 billion—more, the *South China Morning Post* pointed out, than Macau's entire public-works budget for the past five years.

The Venetian has 870 tables and 3,400 slot machines in the world's largest gambling hall, which is encircled by 350 shops, more retail space than any Hong Kong mall. That is also over twice as many tables as existed in all of Macau in 2002, when a local monopoly was broken and the Las Vegas operators were allowed in. This brought together American firms, with their business plans and architectural schemes honed in Nevada, and enthusiastic Chinese punters. Macau's old casinos could not compete. Las Vegas Sands opened its first casino in Macau in 2004, and it became profitable overnight, as did casinos opened by fast-moving rivals. Investors took a while to understand the market's potential, but between late 2005 and early 2007 shares in Las Vegas Sands doubled.

But they have since been volatile. The Chinese authorities recently cracked down on visas issued from southern China—the kind of political twist that can play havoc with strategic planning. Wynn Resorts, Sands' closest rival, has scaled back its own expansion in Macau. But Sands' chairman, Sheldon Adelson, is convinced that the Venetian's success is a sure-fire bet. Judging by this week's crowds, he may well be right.

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Face value

The transcendental crusader

Aug 30th 2007
From The Economist print edition

Can Taddy Blecher's combination of cheap business education and meditation transform South Africa?

IN HIS early years there was little to suggest that Taddy Blecher would end up in Johannesburg's inner city, surrounded by youngsters from poor backgrounds. An actuary turned management consultant, Mr Blecher first stepped into a township by mistake. “I was terrified and thought I was going to die,” he remembers. In 1995 he was on the point of emigrating to America, but at the last minute he decided to stay and make a difference. He spent the next four years teaching transcendental meditation in township schools. This was quite a stretch from his upbringing as a “white Jewish guy in Johannesburg”, but he describes it as the best time of his life. He and three partners then started CIDA City Campus, an almost-free business university for students who cannot afford mainstream higher education. (Students are charged only $21 per month in tuition, and some also receive additional financial help.) In a country where poverty and poor skills remain endemic, he has become a local hero.

Mr Blecher, a Harry Potter lookalike with contagious enthusiasm, is passionate about education. The apartheid system deliberately provided sub-standard schooling to the country's black majority; today, good education is still beyond the reach of many poor South Africans. In addition, too few manage to finish high school, and many of those who make it to university drop out, often because they cannot afford it. “It drives me crazy,” says Mr Blecher, becoming agitated. “We are throwing away our people.” As a result, masses of unskilled South Africans cannot find jobs, while firms complain of a crippling lack of skilled people. Decades of apartheid also weakened any spirit of entrepreneurship. The government's “black economic empowerment” policy seeks to redress the economic injustices of apartheid by nudging companies to bring in black shareholders and appoint more black employees, managers, board members and suppliers. But critics point out that this has created a small elite of dealmakers and passive minority shareholders rather than much-needed black entrepreneurs.

Believing that a new way of thinking about education was needed, Mr Blecher decided to start a free university. “Education needs to be holistic,” he says with conviction. “The school system is not producing a happy society, and people are not awake in the way they should be.” Besides providing tertiary education to youngsters who could not afford to attend existing universities, he hoped to help people find direction in their lives (Mr Blecher is an advocate of transcendental meditation in this regard) and help to transform communities. “My deepest interest”, he explains, “is to help people realise how great they are.”

Mr Blecher turned to local companies for help. A bank made its old office building in downtown

Johannesburg available free. Mr Blecher's former employer gave him a desk and a phone line at its offices. CIDA City Campus opened its doors in 2000. Today 80% of CIDA's income comes from donations, amounting to about 50m rand ($7m) a year. Sponsors include Dell, JPMorgan, Sir Richard Branson and Oprah Winfrey, plus an impressive list of local firms. Students help to run the school, providing them with experience and keeping costs down. Many teachers are professionals who offer their services free.

Today about 1,500 students are enrolled at CIDA. The business school offers a general Bachelor in Business Administration (BBA) course, as well as practical specialities such as information technology, construction and entrepreneurship for those who qualify. In July CIDA's School of Investments opened its doors, complete with a simulated trading room. But the central philosophy is to provide a lot more than education. Mr Blecher describes CIDA as “a whole ecosystem created to support kids.” Many students come from very poor rural backgrounds, and moving to Johannesburg means a huge adjustment and often extreme financial hardship. Some start with a residential one-year foundation course to plug academic holes before enrolling in the BBA degree. Counsellors are provided and a wardrobe is also at hand for those who need to smarten up for job interviews.

The trouble with meditation

Students are also required to volunteer for community work when they go back home during the holidays. Some teach, while others mentor teenage orphans responsible for looking after younger siblings. But all of them have to give something back to their communities, furthering Mr Blecher's dream of healing South Africa. Often the first members of their families to go to university, graduates then step into a life that was previously out of reach. The former actuary points out that CIDA's graduates will collectively earn 150m rand in salaries this year, which by his calculations amounts to a net present value of 5 billion rand over their 40-year careers.

Mr Blecher's odd mixture of new-age earnestness and hard work has made CIDA a beacon of hope, both at home and abroad. As well as adding further specialist courses, CIDA hopes to open new schools elsewhere in South Africa. But behind its success linger some concerns. CIDA remains intimately associated with its founder and chief executive, and there are questions about whether it would survive without him. Though it is no longer mandatory, the exact role of transcendental meditation in the curriculum remains controversial. It still raises suspicions and tensions among some students, staff and donors. CIDA's fast growth has overwhelmed its administrative systems. And although the specialist degrees are by most accounts excellent, some employers are said to have been disappointed by the general BBA graduates they have hired. The quality of education will need to improve if CIDA's degree is to compare with that of mainstream universities. There is no shortage of goodwill or ability within the school to sort these things out. But sorted out they must be, if CIDA is to live up to its inspiring vision.

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Google

Inside the Googleplex

Aug 30th 2007 | SAN FRANCISCO
From The Economist print edition

It is rare for a company to dominate its industry while claiming not to be motivated by money. Google does. But it has yet to face a crisis

Corbis

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IN AMERICA a phenomenon might claim to have entered mainstream culture only after it has been satirised on “The Simpsons”. Google has had that honour, and in a telling way. Marge Simpson types her name into Google's search engine and is amazed to get 629,000 results. (“And all this time I thought ‘googling yourself' meant the other thing.”) She then looks up her house on Google Maps, goes to “satellite view” and zooms in. To her horror, she sees Homer lying naked in a hammock outside. “Everyone can see you; get inside,” she yells out of the window, and the fumbling proceeds from there.

And that, in a nutshell, sums up Google today: it dominates the internet and guides people everywhere, such as Marge, to the information they want. But it also increasingly frightens some users by making them feel that their privacy has been intruded upon (though Marge, technically, could not have seen Homer in real time, since Google's satellite pictures are not live). And it is making enemies in its own and adjacent industries. The grand moment of Marge googling herself, for example, was instantly available not only through Fox, the firm that created the animated television show, but also on YouTube, a video site owned by Google, after fans uploaded it in violation of copyright.

Google evokes ambivalent feelings. Some users now keep their photos, blogs, videos, calendars, e-mail, news feeds, maps, contacts, social networks, documents, spreadsheets, presentations, and credit-card information—in short, much of their lives—on Google's computers. And Google has plans to add medical records, location-aware services and much else. It may even buy radio spectrum in America so that it can offer all these services over wireless-internet connections.

Google could soon, if it wanted, compile dossiers on specific individuals. This presents “perhaps the most difficult privacy issues in all of human history,” says Edward Felten, a privacy expert at Princeton University. Speaking for many, John Battelle, the author of a book on Google and an early admirer, recently wrote on his blog that “I've found myself more and more wary” of Google “out of some primal, lizard-brain fear of giving too much control of my data to one source.”

Google itself has been genuinely taken aback by such sentiments. The Silicon Valley company, which trumpeted its corporate motto, “Don't be evil”, before its stockmarket listing in 2004, considers itself a force for good in the world, even in defiance of commercial logic. Its founders, Larry Page and Sergey

Brin, and Eric Schmidt, its chief executive, have said explicitly and repeatedly that their biggest motivation is not to maximise profits but to improve the world.

Too many sermons

Such talk can make outsiders wince. Book and newspaper publishers, media companies such as Viacom, businesses which depend on Google's search rankings and a lengthening queue of others are tired of moralising sermons. Some feel their own livelihoods are threatened and are suing Google. Even some employees (called “Googlers”) or former employees (“Xooglers”) are cynical. Google is “arrogant” because it feels “invincible”, says a Xoogler who left to run a start-up firm. The internal attitude towards customers, rivals and partners is “you can't stop us” and “we will crush you”, he says. That “kinder, gentler” image is “mythology” and, he reckons, Google gets away with it only because of its impressively high share price.

That share price has quintupled since 2004, making Google worth $160 billion. The company has not yet had its tenth birthday. Yet Piper Jaffray, an investment bank, expects it to have revenues of $16 billion and profits of $4.3 billion this year. With so much money pouring in sceptics say it is easy to ignore shareholders and talk about doing good instead of doing well. But what happens when earnings fall short of Wall Street expectations or some other disaster strikes? Yahoo! and other rivals have gone through such crises and been humbled. Google has not.

Fifty cents at a time

Google's success still comes from one main source: the small text ads placed next to its search results and on other web pages. The advertisers pay only when consumers click on those ads. “All that money comes 50 cents at a time,” says Hal Varian, Google's chief economist. For this success to continue, several things need to happen.

First, Google's share of web searches must remain stable. Thanks to its brand, this looks manageable. Google's share has steadily increased over the years. It was about 64% in America in July, according to Hitwise. That is almost three times the volume of its nearest rival, Yahoo!. In parts of Europe, India and Latin America, Google's share is even higher. Only in South Korea, Japan, China, Russia and the Czech Republic does it trail local incumbents.

Second, Google must maintain or improve the efficiency with which it puts ads next to searches. And here its dominance is most impressive. In a recent analysis by Alan Rimm-Kaufman, a marketing consultant, it took a whopping 73% of the budgets of companies that advertise on search engines (versus 21% and 6%, respectively, for Yahoo! and Microsoft). It charged more for each click, thanks to its bigger network of advertisers and more competitive online auctions. And it had far higher “click-through rates”, because it made these ads more relevant and useful, so that web users click on them more often.

Perhaps most tellingly, advertisers do better with Google. Mr Rimm-Kaufman found that Google's ads “converted” more often into actual sales, which tended to be larger than those originating from Yahoo! or Microsoft. This is astonishing, given that Yahoo! has just spent a year on an all-out effort, codenamed Panama, to close precisely these gaps.

But even lucrative “pay-per-click” has limits, so Google is moving into other areas. It is trying (pending an antitrust inquiry) to buy DoubleClick, a firm that specialises in the other big online-advertising market, so-called “branded” display or banner ads (for which each view, rather than each click, is charged for). And Google now brokers ads on traditional radio stations, television channels and in newspapers of the dead-tree sort.

Sceptics point out that with each such expansion, Google reduces its profit margins, because it must share more of the revenues with others. If a web surfer clicks on a text ad placed by Google on a third-party blog, for instance, Google must share the revenue with the blogger. If Google places ads in newspapers or on radio stations, it must share the revenues with the publisher or broadcaster.

Yet Google does not look at it that way. Its costs are mostly fixed, so any incremental revenue is profit. It makes good sense for Google to push into television and other markets, says Mr Varian. Even if Google

gets only one cent for each viewer (compared with an average of 50 cents for each click on the web), that cent carries no variable cost and is thus pure profit.

The machinery that represents the fixed costs is Google's secret sauce. Google has built, in effect, the world's largest supercomputer. It consists of vast clusters of servers, spread out in enormous datacentres around the world. The details are Google's best-guarded secret. But the result, explains Bill Coughran, a top engineer at Google, is to provide a “cloud” of computing power that is flexible enough “automatically to move load around between datacentres”. If, for example, there is unexpected demand for Gmail, Google's e-mail service, the system instantly allocates more processors and storage to it, without the need for human intervention.

This infrastructure means that Google can launch any new service at negligible cost or risk. If it fails, fine; if it succeeds, the cloud makes room for it. Thus Google can redefine its goals almost on a whim. Its official strategy recently became “search, ads, and apps”—the addition being the apps (ie, software applications). Sure enough, after a string of acquisitions, Google now offers a complete alternative to Microsoft's entrenched Office suite of programs, all accessible through any web browser. A new technology, called Google Gears, will make these applications usable even when there is no internet connection. And Google is hawking these applications not only to consumers but also to companies. Ultimately it does so because, thanks to its supercomputer, it can.

With Google's cashflow and infrastructure, the freedom to do anything it fancies gives rise to constant rumours. Often, these are outrageous. It used to be conventional wisdom that Google would build cheap personal computers for poor countries. This turned out to be nonsense, because Google does not want to make hardware. Now there is talk of a “Gphone” handset. This is also unlikely because Google is more interested in software and services, and does not want to alienate allies in the handset industry—including Apple, which shares board directors with Google and uses Google software on its iPhone.

Sometimes the rumours are both outrageous and true. Google is experimenting with new ways of bringing broadband connections to consumers, by blanketing parts of Silicon Valley with Wi-Fi networks. It is planning to enter an auction for valuable radio spectrum in America, and thinking of radically new business models to make money from wireless data and voice networks, perhaps a free service supported by ads.

If it goes wrong, how?

Beyond its attempts to expand into new markets, the big question is how Google will respond if its stunning success is interrupted. “It's axiomatic that companies eventually have crises,” says Mr Schmidt. And history suggests that “tech companies that are dominant have trouble from within, not from competitors.” In Google's case, he says, “I worry about the scaling of the company.” Google has been hiring “Nooglers” (new Googlers) at a breathtaking rate. In June 2004 it had 2,292 staff; this June the number had reached 13,786.

Its ability to get all these people has been a competitive weapon, since Google can afford to hire talent pre-emptively, making it unavailable to Microsoft and Yahoo!. Google tends to win talent wars because its brand is sexier and its perks are fantastically lavish. Googlers commute on discreet shuttle buses (equipped with wireless broadband and running on biodiesel, naturally) to and from the head office, or “Googleplex”, which is a photogenic playground of lava lamps, volleyball courts, swimming pools, free and good restaurants, massage rooms and so forth.

Yet for some on the inside, it can look different. One former executive, now suing Google over her treatment, says that the firm's personnel department is “collapsing” and that “absolute chaos” reigns. When she was hired, nobody knew when or where she was supposed to work, and the balloons that all Nooglers get delivered to their desks ended up God knows where. She started receiving detailed e-mails “enforcing” Google's outward informality by reminding her that high heels and jewellery were inappropriate. Before the corporate ski trip, it was explained that “if you wear fur, they will kill you.”

Google is a paradise only for some, she argues. Employees who predate the IPO resemble aristocracy. Engineers get the most kudos, people with other functions decidedly less so. Bright kids just out of college tend to love it, because the Googleplex in effect replaces their university campus—with a dating scene, a laundry service and no reason to leave at weekends. Older Googlers with families tend to like it less, because “everybody, even young mums, works seven days a week.”

Another Xoogler, who held a senior position, says that by trying to create a “Utopia” of untrammelled creativity, Google ended up with “dystopia”. As is its wont, Google has composed a rigorous algorithmic approach to hiring, based on grade-point averages, college rankings and endless logic puzzles on whiteboards. This “genetic engineering of their workforce,” he says, means that “everybody there is a rocket scientist, so everybody is also insecure” and the back-stabbing and politics are reminiscent of an average university's English department.

Then there is the question of what all these people are supposed to do. “We kind of like the chaos,” says Laszlo Bock, the personnel boss. “Creativity comes out of people bumping into each other and not knowing where to go.” The most famous expression of this is the “20% time”. In theory, all Googlers, down to receptionists, can spend one-fifth of their time exploring any new idea. Good stuff has indeed come out of this, including Google News, Gmail, and even those commuter shuttles and their Wi-Fi systems. But it is not clear that the company as a whole is more innovative as a result, as it claims. It still has only one proven revenue source and most big innovations, such as YouTube, Google Earth and the productivity applications, have come through acquisitions.

In practice, the 20% time works out to be 120% time, says another Xoogler, “since nobody really gets around to those projects for all their other work.” The chances of ideas being executed, he adds, “are basically zero.” What happens to the many Googlers whose ideas are rejected? Once their share options are fully vested they consider leaving. The same phenomenon changed Microsoft in the 1980s, when allegedly T-shirts popped up saying FYIFV (“Fuck you, I'm fully vested”). Already some are going to even “cooler” start-ups, such as Facebook or Twitter.

This week George Reyes, Google's finance chief, said he would retire. At 53, he is a multi-millionaire. Mr Reyes has maintained the company's policy of not providing guidance to Wall Street on future earnings, although his comments on growth prospects have moved its share price.

As Nick Leeson was to Barings...

Besides the slow risk of calcification that comes with growth, there is also the risk that Nooglers will dilute Google's un-evil values. Worse, Google might inadvertently pick up a rogue employee, as the late Barings Bank notoriously did with Nick Leeson. Indeed, Google is fast becoming something like a bank, but one that keeps information rather than money. This applies equally to its rivals, but Google is accumulating treasure fastest. Peter Fleischer, Google's privacy boss, argues that the risk of a malicious or negligent employee leaking or compromising the data, and thus the privacy of users, is minimal because only a “tiny” number of engineers have access to the databases and everything they do is recorded.

But the privacy problem is much subtler than that. As Google compiles more information about individuals, it faces numerous trade-offs. At one extreme it could use a person's search history and advertising responses in combination with, say, his location and the itinerary in his calendar, to serve increasingly useful and welcome search results and ads. This would also allow Google to make money from its many new services. But it could scare users away. As a warning, Privacy International, a human-rights watchdog in London, has berated Google, charging that its attitude to privacy “at its most blatant is hostile, and at its most benign is ambivalent”.

At the other extreme, Google could decide not to make money from some services—in effect, to provide them as a public benefit—and to destroy data about its users. This would make its services less useful but also less intrusive and dangerous.

In reality, the balance must be struck somewhere in between. Messrs Schmidt, Page and Brin have had many meetings on the subject and have made several changes in recent months. First, says Mr Fleischer, Google has committed itself to “anonymising” the search logs on its servers after 18 months—roughly as banks cross out parts of a credit-card number, say. This would mean that search histories cannot be traced to any specific computer. Second, Google says that the bits of software called “cookies”, which store individual preferences on users' own computers, will expire every two years.

Not everybody is impressed. The server logs will still exist for 18 months. And the cookies of “active” users will be automatically renewed upon expiry. This includes everybody who searches on Google, which in effect means most internet users. Then there is the matter of all that other information, such as e-mail and documents, that users might keep in Google's “cloud”. Mr Schmidt points out that such users by definition “opt in”, since they log in. They can opt out at any time.

As things stand today, Google has little to worry about. Most users continue to google with carefree abandon. The company faces lawsuits, but those are more of a nuisance than a threat. It dominates its rivals in the areas that matter, the server cloud is ready for new tasks and the cash keeps flowing. In such a situation, anybody can claim to be holier than money. The test comes when the good times end. At that point, shareholders will demand trade-offs in their favour and consumers might stop believing that Google only ever means well.

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The world economy

Rocky terrain ahead

Aug 30th 2007 | WASHINGTON, DC
From The Economist print edition

Corbis

How much will the credit crunch hurt the world economy?

THE Teton mountains jut suddenly and majestically out of the Wyoming plains near Jackson Hole. The central bankers and economists gathering there this week for the symposium of the Federal Reserve Bank of Kansas City, an annual meeting of the macroeconomic elite, face a similarly breathtaking, if less beautiful, change in the global financial topography. In less time than it takes to get a good compass bearing, cheap credit and stable markets have given way to investor panic and a credit crunch.

So far the central bankers have concentrated on stemming panic by flooding financial markets with short-term liquidity, and, in the case of the Federal Reserve, by loosening the rules for, and price of, banks' borrowing from the discount window. These efforts helped stabilise the money markets last week. But many debt products, particularly asset-backed instruments, remain paralysed. Yields on ten-year Treasury bills dropped to 4.52% on August 28th while stockmarkets fell sharply, though shares bounced back the following day. Wholesale panic could quickly return, a danger that will occupy the Jackson Hole attendees.

Even if that unhappy outcome is avoided, there is much to worry about. Top of the list is gauging what effect the recent turmoil will have on the world economy.

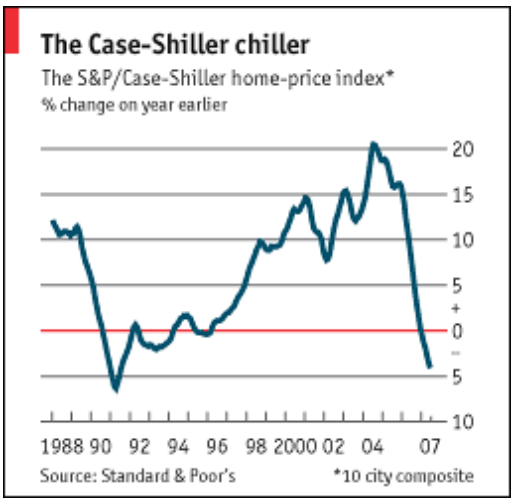
Common sense suggests the biggest impact will be felt in America, home both to the subprime mess and the worst financial dislocations. At first sight, the economy hit the August turmoil in fine fettle. Output growth in the second quarter was strong; business spending looked perky; wage growth was solid and high petrol prices (which had dragged down consumer spending) were falling.

On closer inspection, however, the picture was less rosy. Output boomed in the second quarter thanks partly to one-off factors, such as the rebuilding of firms' stocks. Consumption growth slowed sharply over the same period, and some areas of consumer spending stayed weak into the summer. Car sales, for instance, fell to a nine-year low in July.

Most important, the economy's weakest link—the housing market—was in even worse shape than many realised. The pace of new-home construction plunged in July while the backlog of existing unsold houses rose to a 16-year high. House prices have kept falling. According to the S&P Case-Shiller index, average prices in America's ten main cities fell by 4.1% in the year to June (see chart).

A still-deepening housing bust left the economy vulnerable well before August's crunch. And that crunch has made the prospects for housing much worse. To see why, consider that the mortgage instruments that have disappeared, or become dramatically more

expensive, account for more than half of all mortgages originated last year. They include subprime and Alt-A loans for the least creditworthy and "jumbo" loans that are too big to be bought by the government-backed behemoths, Fannie Mae and Freddie Mac.



Not surprisingly, Wall Street's seers are chalking down their projections for construction and house prices. Economists at JPMorgan, for instance, now expect the pace of new-home building to fall by a further 30%, while they expect average house prices to tumble between 7.5% and 15% by the end of 2008. Jan Hatzius, an economist at Goldman Sachs, thinks that house prices could drop by between 15% and 30% over the next few years.

A construction bust will continue to drag down output growth. The bigger question is what effect double-digit house-price declines would have in a country where consumer debts have soared on the back of housing wealth. Optimists take comfort from consumers' resilience so far. That may be a mistake. Some 60% of people whose recent adjustable-rate mortgages reset next year, for instance, have less than 15% equity in their homes, suggesting double-digit price drops will bring far more financial distress. Problems are already emerging in other consumer debt (credit-card defaults, for instance, are rising), and lenders are likely to get tougher. Consumer spending will be crimped as homeowners feel poorer, particularly if stockmarkets continue to slide.

A simulation by economists at UBS gives a sense of the risks. Their analysis suggests that the combination of a credit shock (which they define as an increase of one percentage point in the cost of capital), coupled with drops of 10% in both share and house prices, would drag America's output growth down by 2.6 percentage points next year, in effect pushing the economy into recession.

So why are most Wall Street analysts still convinced that the damage from financial distress will be limited? The main reason is that they expect the Fed to ride to the rescue with lower interest rates. Financial futures prices suggest investors expect the central bankers to cut their policy rate by 0.75%, to 4.5%, by the end of the year. But the UBS analysis shows that lower interest rates would not ease all of the pain. The model suggests that even with lower interest rates, America's growth rate could slow by more than a percentage point next year. Such simulations have their problems. But the bottom line seems clear. If America faces double-digit falls in house prices, the economy, despite looser monetary policy, looks set to be weak.

Foreign geography

The impact on the rest of the world, too, may be severe. Many expect the global economy to be robust enough to shake off American weakness. After all, America's output growth has been soft for more than a year, yet the global economy has remained strong.

Such optimism may underplay the potential channels through which the subprime mess can infect other countries. One route is financial contagion. Subprime losses are popping up from Canada to China. The broad spread of losses makes them easier to digest, but also spreads financial nervousness and risk aversion.

That risk aversion may find surprising victims. In previous financial wobbles, emerging markets often suffered most. This time rich countries, particularly in continental Europe, where some banks have been caught out by the subprime mess, may be more worried. Thanks to fat foreign-exchange reserves and current-account surpluses, many emerging economies are well placed to withstand an exodus of investors.

In Europe's rich economies, in contrast, subprime losses and investor nervousness may force banks to tighten their belts, denting the nascent growth in domestic spending. Germany's Ifo index of business sentiment fell for a third month in August, and consumer confidence has also declined. The European Central Bank, which before the crunch had signalled that it would raise interest rates on September 6th, seems to be waiting to see how the dust settles. This week Jean-Claude Trichet, the ECB's head, stressed that the bank was not "pre-committed" to an increase.

Even if direct financial contagion is contained, America's subprime crisis could spawn psychological contagion, particularly a reassessment of house prices. Although the scale of reckless lending to risky

borrowers was bigger in America than anywhere else, house-price inflation has been more extreme elsewhere. Countries such as Britain and Spain are particularly vulnerable to a house-price bust.

Nor should the world economy's resilience to American weakness be exaggerated. Although America's current-account deficit has been declining, it is still almost 6% of GDP. By spending more than they produce, Americans are still a big source of demand for the rest of the world. A sharp drop in that demand would hurt.

The severity of mountainous terrain becomes clearer as you start climbing. So, too, the economic effects of the credit crunch will become more apparent over time. But as they mull over the challenges they face, the Jackson Hole attendees might take a good look at the Tetons.

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American investment banks

Shots in the dark

Aug 30th 2007 | NEW YORK
From The Economist print edition

Wall Street pays for its opacity

STOCKMARKET investors come in all shapes and sizes, but in the current turmoil they agree on one thing: if in doubt about a financial firm, shoot first and ask questions later. State Street, a big money manager, is the latest to stumble into the line of fire. Its shares slumped this week on unsubstantiated rumours that it faced big losses in asset-backed commercial paper.

But it is the investment banks that continue to take most of the bullets. They helped drag stockmarkets down on August 28th after Merrill Lynch downgraded a number of its peers, citing exposure to toxic credit, a day after Goldman Sachs had done the same. An unseemly squabble over jurisdiction in a bankruptcy case against two defunct Bear Stearns hedge funds probably didn't help to calm nerves.

It hurts all the more to fall from a great height. Until a couple of months ago the investment banks were flying. Profit records were smashed quarter after quarter. Bonus pools looked more like lakes. Valuations climbed to three times book value, implying sustainable returns on equity of over 30%, when even 25% is rare in the industry. As long as the money rolled in, no one seemed to mind that much of the business was cloaked in mystery.

Investment banks are now paying for that opacity, even though their management of risk has improved since the last credit crisis in 1998. They are suffering from their decision to do less moving and more storing of assets: they hold a lot more illiquid, hard-to-value paper these days, and have more capital tied up in lumpy private-equity deals. Worse, some of Wall Street's most lucrative recent creations, such as conduits and CDOs, are suddenly out of favour. This is part of what one analyst, Deutsche Bank's Mike Mayo, calls “dis-disintermediation”: the return of more traditional forms of finance, to the benefit of universal banks like Citigroup.

Brad Hintz of Sanford Bernstein, a former treasurer of Morgan Stanley, thinks this loss of business, in itself, is not so worrying. “The evolution of Wall Street, like life itself, is full of dead ends,” he says. New products will eventually emerge to soak up the mass of money earmarked for fixed-income products. Still, the investment banks may have a lot further to fall. All except Bear are still trading well above book value, the level at which they are generally considered cheap. Tellingly, while executives at other financial firms piled into their own shares in August, believing them oversold, there was scant buying among investment bankers.

The key now will be to reassure markets that the exotic assets on bank balance sheets are worth something. Investors are waiting with bated breath for Wall Street firms' third-quarter results, beginning in the second week of September. They may try to get as much bad news out as they can while sentiment is at rock bottom.

Mr Hintz sees it as an encouraging sign that none of the investment banks issuing bonds in the second half of August pointed to new “material” risks, as required when a company raises debt. This suggests that, while things are undoubtedly bad, the banks see no further nasty surprises in the short term.

The debate over how to value elaborate securities, less pressing in good times, is now taking centre stage. Most credit instruments have to be held at the value a buyer might pay for them, not cost. But judging that is more art than science. The Securities and Exchange Commission, the investment banks' regulator, is examining the issue following rumours that Merrill Lynch and Goldman Sachs were too optimistic in their marking. “This is a chance for the SEC to show leadership on a crucial issue. We desperately need an umpire to ensure consistency and restore confidence,” says one senior banker.

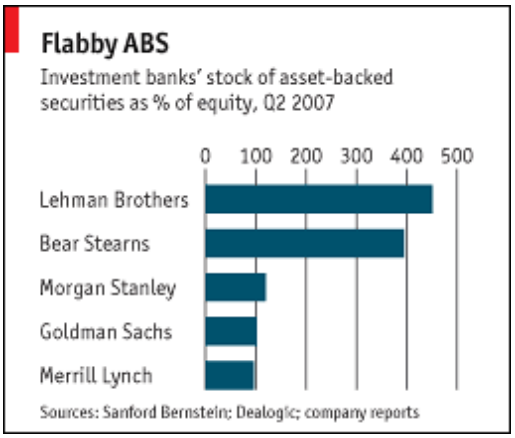
At least investment banks are in better shape than they were going into past crises. Their capital structures are more stable: they increased long-term funding by $200 billion in the past year alone, making them less vulnerable when capital markets dry up. They are also more diversified. They have piled

into commodities trading and wealth management, which remain attractive. Their proprietary trading desks, once predominantly credit-focused, now trade lots of equities too. All except Bear Stearns now earn roughly half of their non-retail revenues outside America.

Peter Nerby of Moody's, a rating agency, points to two further advantages (though his rivals at Standard & Poor's are not so sanguine). The banks have become better at making money in tough times, he says. Thanks to hedging, trading volume and volatility are now bigger earnings drivers than the level or direction of markets. Second, good first-half results will help to bail Wall Street firms out, as half of their accrued bonus pools can be taken back to cover second-half losses. A generous pay structure can come in handy if markets falter at the right time of the year.

Bear and Lehman Brothers are likely to suffer more than the rest, partly because they are smaller and partly because they are more exposed to asset-backed nasties (see chart). If conditions worsen, they may even have to buy back securities peddled to clients, as they are obliged to make markets in some of them.

The tables may yet turn. Merrill, Goldman and Morgan Stanley are more exposed than Bear or Lehman to the $300 billion overhang of unsold debt from leveraged buy-outs. This week the bankers fought back, forcing Home Depot to cut the price on the sale of its supply division and the trio of private-equity buyers to swallow higher interest rates on the debt. A bigger test of nerves will come in the next couple of weeks, when buyers are sought for more than $20 billion of loans to finance the takeover of First Data, a transaction-processing group. Were that or another big upcoming deal to collapse, the investment banks could expect a hail of bullets.



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Buttonwood

The long and the short of it

Aug 30th 2007
From The Economist print edition

A complex system, but a simple problem

ILLIQUIDITY—the difficulty of selling assets at a reasonable price—is at the heart of all financial crises. The market turmoil of the past few weeks is proving that maxim, albeit in novel and interesting ways.

The financial system has been transformed over the past 25 years, with the emergence of new investors (hedge funds and private-equity groups) and new instruments (derivatives and structured products). But what look like incredibly sophisticated strategies on the surface can still be very simple at heart. Investors have been doing what banks have done over the centuries, borrowing short and lending long. Or, to put it another way, they have borrowed in liquid form and invested the proceeds in illiquid assets.

Most of the time this strategy works, because illiquid assets offer a premium return to compensate for the higher risk. It has been given an extra kicker over the last two decades by the "Great Moderation" in the global economy. Falling inflation and steady growth have meant that periods of economic turmoil have been shorter than expected, causing less pain to investors.

But the markets never rest. As more money flowed into risky assets, the excess yields on offer were reduced. Investors were tempted to use more and more borrowed money to enhance the returns. That left them very vulnerable to any abrupt change in sentiment.

The problems of structured investment vehicles (SIVs) are a case in point. These are specialist funds, kept separate from their parent company's balance sheet, that invest in illiquid assets, such as securities backed by subprime mortgages. They funded those long-term investments by borrowing short-term in the money markets, in the form of commercial paper. Other investors were happy to buy that commercial paper because it was "asset-backed", in the form of the mortgage debt.

Now investors, worried about the value of the mortgage-backed debt, are boycotting the commercial paper. The amount of paper outstanding has fallen by $181 billion in two weeks, according to Société Générale, a French bank. This has driven the vehicles on an increasingly desperate hunt for funding. On August 28th Standard & Poor's, a rating agency, downgraded one SIV, Cheyne Finance, and gave warning that it may be forced to sell all of its assets.

The effect is rippling through the system. First, forced liquidations push down the price of assets, hitting confidence further. Second, some of these SIVs were either set up by, or have back-up lending facilities with, banks. So banks are ending up back on the hook. Third, these unwanted assets are putting additional strain on banks' balance sheets, which forces them to restrict their lending. It all adds up to a classic liquidity crisis.

Two new academic papers suggest that such crises may be inherent to financial markets. In the first*, the academics link the liquidity of the markets to the ability of traders to get funding. In some circumstances (like now), this system becomes destabilising as traders are forced to put up more capital to fund their positions. This causes them to sell assets, sending prices down further and prompting lenders to demand pledges of even more capital. This is a description of the liquidity trap that doomed Long-Term Capital Management, an American hedge fund, almost a decade ago.

The second paper† suggests that traders face "Knightian uncertainty", or risks that cannot be measured. When liquidity appears to be limited, those faced with this uncertainty fear the worst and try to hang on to their capital, exacerbating the lack of liquidity in the markets.

This uncertainty may have been increased by the lack of transparency in the modern financial system. No one is sure who owns what, so investors are treating all counterparties with suspicion. And the much-touted advantage of the system—the way that risk has been dispersed—looks less convincing now that banks have been saddled with the cost of funding private-equity buy-outs and SIVs.

In the past, liquidity crises have been solved by the emergence of a confident buyer with deep pockets, such as John Pierpont Morgan in 1907. But who could it be this time? Pension funds and insurance companies no longer have the flexibility, while hedge funds are facing tighter funding and the prospect of redemptions. That leaves the sovereign wealth funds of China and the Middle East. But even if they want to buy in bulk, do Western governments want to let them?

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* "Market Liquidity and Funding Liquidity", by Markus Brunnermeier and Lase Heje Pedersen, June 2007.

† "Collective Risk Management in a Flight to Quality Episode", by Ricardo Caballero and Arvind Krishnamurthy, August 2007.

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Chinese banks

On a gambling expedition

Aug 30th 2007 | HONG KONG
From The Economist print edition

Constraints at home push China's banks into risky foreign assets

Get article background

SOME people had long suspected there were booby traps waiting to be sprung inside the Chinese banking system. But few thought they would be tripped by problems far away from China.

So it caused considerable surprise on August 23rd when Bank of China, one of the country's biggest lenders, revealed that it held a $9.6 billion exposure to securities backed by American subprime mortgages—albeit most of them highly rated. No other bank in Asia has admitted to such a large investment in that segment of America's fast-deteriorating mortgage market. Subsequently, China's two other large, publicly listed institutions, ICBC and China Construction Bank, each disclosed subprime holdings above $1 billion.

For Bank of China in particular the financial hit could be severe: 18% of shareholders' equity, were the entire investment to prove worthless. That is unlikely, but so is the prospect that the $151m the bank put aside will cover potential losses.

Optimists, including the Chinese authorities, played down the seriousness of the problem. Chinese banks are hugely profitable: among the biggest banks, earnings are growing by more than 40% a year and non-performing loans have shrunk from about a quarter of the total several years ago to less than 4%. To them, that makes the subprime losses look more like an inconvenience than a calamity.

The numbers, however, should not be belittled. Bank of China's investments in ropey American mortgages are almost as much as the amount it raised in a Hong Kong share offering last year. The reason it took such a gamble may well reflect some of the problems of managing a bank's balance sheet in China. Share offerings have raised lots of capital; but bankers have only a few years of experience making complex (possibly cross-border) asset-allocation decisions, and domestic securities markets are still primitive, with few investment opportunities.

Government efforts to constrain a lending boom have put further pressure on Chinese banks. They must keep twice the share of risk-weighted assets as reserves that they did four years ago, 12% compared with 6%. On those reserves, banks receive a measly 2% in interest. Meanwhile Moody's, a ratings agency, reckons that the loan-to-deposit ratio for Chinese banks is a modest 68%. For Bank of China the number is lower still, about 60%.

This poses a huge investment challenge for the banks, because lending should be their most lucrative business. Typically, they earn 7% on a loan, compared with 3% paid to depositors. Alternative assets are in short supply. The domestic bond market is thin (ironically because the Chinese government wants to restrict competition for banks). No wonder they have hunted abroad for highly rated, lucrative assets whose risks they may not have fully understood. Such are the traps that await any institution with too much money and too little to do with it.

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Chinese companies

Stir-fry capitalism

Aug 30th 2007 | BEIJING
From The Economist print edition

Three of the world's biggest companies are now Chinese

Get article background

CHINA'S stockmarket continues to hit record highs. Last week the benchmark Shanghai Composite index topped 5,000, a rise of 90% since the start of the year; and China's total stockmarket capitalisation now exceeds its GDP for the first time. This has been hailed in the Chinese media as marking progress towards a more advanced stage of capitalism. Others simply see it as evidence of a bubble.

The fact that China's shares are worth more than its GDP has little economic significance, since it compares a stock with an annual flow. And in any case, the value of tradable shares—that is, excluding those held by the government—is still only about 35% of GDP, compared with 150% in America or over 100% in India.

Higher share values do, however, mean that Chinese companies are rapidly climbing up the rankings of the world's biggest. No fewer than three of the world's top six firms by market value are now Chinese (see chart). The rest are American. Taking the world's 25 largest, six are Chinese—more than the number of European Union or Japanese companies. A few years ago there were no Chinese firms in the top 25.

The Industrial and Commercial Bank of China (ICBC) has overtaken Citigroup as the world's biggest bank by market value (although Citigroup's profits last year were more than three times bigger); it is in third place overall. If PetroChina, now in fourth place, goes ahead with its plan to sell shares on the Chinese mainland, then it could soon eclipse Exxon Mobil as the world's largest company. This assumes that, as with previous IPOs, the new share price soars above that of those already listed in Hong Kong. But since the bulk of PetroChina's shares are not freely traded, its claim to having the highest “market value” would be highly contentious.

However, those who view China's advance up corporate league tables as part of its inevitable move towards world domination would be wise to remember Japan. In 1989, just before its bubble burst, six of the world's ten biggest banks were Japanese. Look at what happened to them.

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The revival of research

Oh! What a lovely crunch

Aug 30th 2007 | NEW YORK
From The Economist print edition

Rumours of the death of research have been exaggerated

THE past few years have not been kind to Wall Street's equity analysts. Accused of helping to inflate the internet bubble, new regulations were imposed upon them after it popped. Research budgets subsequently tumbled. Fund managers are increasingly bypassing the widely distributed wares of traditional research providers, turning to specialist firms instead. Less than six months ago, Merrill Lynch's head of research complained that Wall Street analysis was being “Napsterised”, or pirated. Some big financial firms, such as Prudential, have closed their research arms. Others are pondering their future in the business. To cap it all, a recent study suggested that it was all too easy for companies to buy the loyalty of those who cover their stock. The analyst's heyday would seem to be long gone.

But times are changing again. As markets sputter, analysts are regaining some clout. American shares plummeted on August 28th partly because Merrill Lynch's Guy Moszkowski cut his rating on several banks. Another Merrill analyst had earlier caused an even bigger quake by downgrading Countrywide, a big mortgage lender. And shares in Bear Stearns leapt when Dick Bove, an analyst with Punk Ziegel, merely pondered the possibility that the broker might receive a cash infusion from a foreign investor.

One explanation for this revival of influence is that, with markets so febrile, any shift in opinion is bound to have an exaggerated effect. But there may be more to it than that. As uncertainty grows, investors seem to be placing a higher value on research than they did only months ago.

There is nothing new in this, reckons Mr Bove, a 40-year veteran of the industry. He asserts that nobody cares what analysts think in the good times, when what matters is deploying your money as quickly as possible. But the tables quickly turn when markets fall, as investors seek to steady their portfolios. Mr Bove argues that the golden age for equity analysts was the long bear market of the 1960s and 1970s, when advice on how to avoid losing money was highly treasured.

Another factor is the loss of faith in “quant” funds, which trade using complex computer models. Their recent problems have pushed investors back towards “more bottom-up, fundamental analysis”, says Lara Warner, head of American research at Credit Suisse. “People suddenly want to understand what they're holding.”

Recent structural changes also play a part. Since the “Global Settlement” of 2003, which severed the links between investment banks' dealmakers and their research departments, the banks have begun to tie analysts' pay more closely to performance. Bold calls earn bigger bonuses, if they prove correct. Ideas that stand out, and are thus valuable to hedge funds seeking “alpha” (above-market) returns, are also rewarded.

The audacity of some analysts stands in contrast to the spinelessness of Moody's and Standard & Poor's, which showered complex structured products with top-notch ratings and then twiddled their thumbs until they could no longer avoid downgrading them. By growing too cosy with their paymasters in structured products—the banks that package them—the rating agencies have ended up hopelessly in knots. A bit like equity analysts during the dotcom boom, in fact.

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Financial litigation

When nobody's looking

Aug 30th 2007
From The Economist print edition

Expect more accusations as the markets wobble

WHEN America's Securities and Exchange Commission (SEC) slapped civil fraud charges on Sentinel Management in August, its action was unusually swift. Though Sentinel, which manages cash for hedge funds and futures clearers, blamed a “liquidity crisis” for its decision to halt fund redemptions, the SEC alleged that explanation was false, and that it was using the meltdown as a cover-up for mishandling its clients' funds.

Walter Ricciardi, deputy director of enforcement at the SEC, says his agency's prompt action in the Sentinel case was meant to send a message. He notes a pattern of increased abuse during “market adjustments”, ranging from America's savings-and-loan crisis to swings in energy markets at the start of this decade. When good times end abruptly, financial managers are often under pressure to meet expected earnings. As a result, he says, they are more likely to “find creative ways to meet those expectations.”

Lawyers specialising in securities issues say they expect a variety of new cases to spring from the market turmoil—not necessarily involving regulators. “We think there's going to be tons of litigation,” says an attorney in New York. Some suggest cases involving hedge funds will be especially prominent after recent losses.

Thus far Sentinel, which at one stage managed $1 billion in assets, is the highest-profile case to come out of the turbulence. The firm has filed for Chapter 11 bankruptcy protection in a federal court in Chicago. On August 29th, a bankruptcy judge approved the appointment of a trustee to oversee its operations.

Even before the latest market turmoil, the challenge for financial regulators had been growing. The development of complex financial products and swift trading across borders and asset types, as well as the growing clout of hedge funds, have forced regulators to work extra hard to keep up with sharp market practices. Admitting as much, Britain's financial regulator is bringing better-trained people into its enforcement division, including lawyers and accountants with experience of the most sophisticated forms of finance.

The SEC, meanwhile, reports a big increase in investigations in four areas of interest for enforcers: insider trading and hedge funds; subprime lending; options backdating; and municipal finance.

A lucrative field for lawyers at present is short selling, whose practitioners (including many hedge funds) borrow and sell a company's shares in the hope that the price goes down. Some of the biggest names in hedge funds—Steven Cohen of SAC Capital, Daniel Loeb of Third Point, Adam Sender of Exis Capital, and David Rocker of Rocker Partners—are due in court next week seeking dismissal of racketeering charges in a short-selling case involving Fairfax Financial, a Canadian insurer. It alleges that the men hired someone calling himself an analyst to smear Fairfax so they could profit from “shorting” its stock.

They are unlikely to be the only hedge-fund managers in court in the near future, but that doesn't mean they—or any of their peers for that matter—have necessarily done anything wrong. For besides cover-ups, one of the other inevitable consequences of financial-market upsets is the search for scapegoats.

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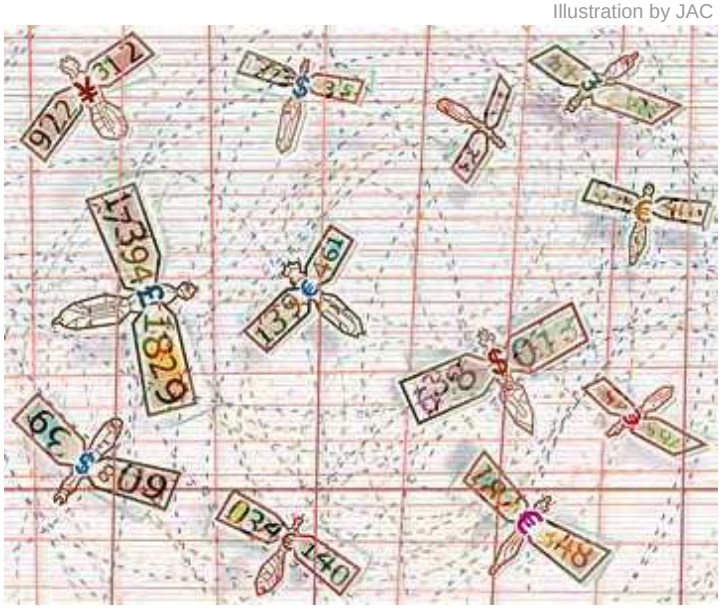
Economics focus

A book-keeping error

Aug 30th 2007
From The Economist print edition

Illustration by JAC



The accounting principle that is meant to capture fair value might end up distorting it

AS THE old joke goes, there are three types of accountant: those who can count and those who cannot. What and how they count is often contentious. A long-fermenting issue is how far “fair-value” accounting, which uses up-to-the-minute market information to price assets, should be pushed in banking. The bodies that set accountancy standards believe the more accurate disclosures are, the better. Regulators meanwhile have fretted that market-based accounting would increase fluctuations in banks' earnings and capital, which might increase risks to financial stability. And commercial banks are reluctant to expose the idiosyncrasies of their loan books to the glare of market scrutiny.

The attractions of fair-value accounts are straightforward. By basing values on recent prices (“marking to market”), they paint a truer picture of a firm's financial health than historical-cost measures. These gauge net worth from the arbitrary dates when assets and liabilities were first booked. In principle, fair-value accounting makes a firm's viability plainer and enables shareholders and regulators to spot financial trouble more quickly. Proponents say that market-based accounting would have limited the fallout from America's savings-and-loan crisis and stopped the rot from Japan's non-performing loans much earlier.

An arbitrary past versus a distorted present

New research suggests that the increasing reach of fair-value accounting might be a mixed blessing. A paper* by Guillaume Plantin of the London Business School, Haresh Sapra of the University of Chicago and Hyun Song Shin of Princeton University concludes that fair-value accounting could sometimes generate fluctuations in asset values that distort the very price information that it puts such store by.

The paper examines the incentives of a bank faced with a choice between selling a loan or keeping it on the balance sheet. Because the bank knows its borrower better than anyone else, it has the best idea of what the loan is really worth. Its managers are rewarded according to the accounting profit of the bank.

If loans are valued at historical cost and market values are rising, the loans are likely to be sold if this is the only way of realising profit, even if the market undervalues them. The banks' managers take a profit and get paid accordingly, although shareholders would be better off if the loans were kept. Fair-value accounting gets around this agency problem. Loans do not have to be sold to cash in on their rising value:

marking the assets to their market value has the same beneficial effect on profits and on managers' pay.

However, in the wrong circumstances fair-value accounting could also induce wasteful sales—of long-term, illiquid loans. Left on the books and marked to market, a loan will be valued at the price at which others have managed to sell. But when there are only a few potential buyers, that may be especially low. So managers will be tempted to sell in the hope of a better price. Because all banks with similar assets face the same incentives, they will all sell, driving the price down. Their shareholders would have been better off had the loans been kept until they fell due. The temptation to sell is greater for longer-term loans.

In this way, a fair-value regime can itself distort the very prices that are supposed to reflect the true worth of assets. The prospect of lower prices can encourage selling which drives down prices further. The information derived from market prices becomes corrupted, and the result is a growing divergence between reported net worth and true value.

This theoretical model is a challenge to the ideal of fair-value accounting: that more information is always better. Although it is technically feasible to mark to market even idiosyncratic assets such as loans to small businesses, it might not be desirable. The authors point to a well-established principle in economics, that incremental moves towards perfect competition are not always good. Eliminating one market imperfection (such as poor information) need not bring the ideal of a frictionless economy closer, because this may magnify the effect of remaining distortions (such as managerial short-termism or illiquid markets).

The paper also underlines some lessons about market liquidity that have been painfully learned outside of academia in the recent market troubles. There is a fair chance that asset markets will stay liquid (in the sense that willing sellers are matched with willing buyers), as long as the actions of market participants are essentially random. But anything that co-ordinates the actions of sellers—in this case, the disclosure required by fair-value accounting—can easily lead to sharp movements in asset prices.

Is the model of self-defeating co-ordinated selling very realistic? Recently, for example, Bear Stearns, a Wall Street investment bank, held off from selling assets into an illiquid market because the transaction prices would have set a nasty benchmark for its other portfolios. So illiquidity prevented asset sales rather than induced them. Mr Shin replies that in instances like this, where there happens to be a dominant holder of assets, there is less chance of sales into a falling market.

Although more accurate disclosure of balance sheets is desirable, the work of Mr Shin and his colleagues is a reminder that there are always trade-offs to any policy change. These authors put their argument in stark terms: “The choice between these measurement regimes boils down to a dilemma between ignoring price signals, or relying on their degraded versions.” In their advocacy of fair-value accounting, accountants are rightly pursuing the interests of investors. But policymakers have to worry about wider issues. Accountancy may be too important to be left solely to accountants. Even the ones that can count.

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* “Marking-to-Market: Panacea or Pandora’s Box?” Forthcoming in the *Journal of Accounting Research*.

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Animal testing

Humane league

Aug 30th 2007 | TOKYO
From The Economist print edition

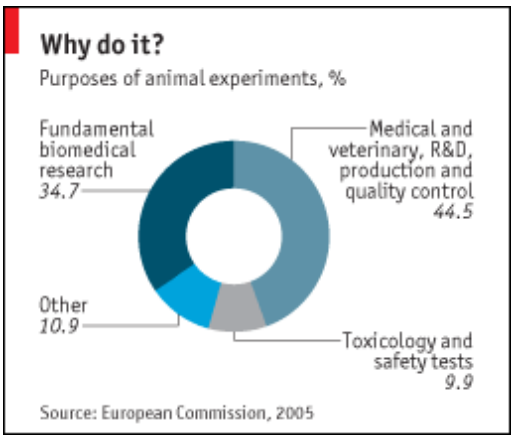
How to do fewer, better animal experiments

Getty Images

FOR a nation of pet lovers, Britain conducts a surprising number of experiments on animals: some 3m a year. America appears to use fewer animals—just 1.1m a year, according to official statistics—but that is an illusion. Unlike Britain's government, America's does not think rats and mice worth counting. Japan and China have even less comprehensive data than America, and animals used in research in those two countries are not protected to the same extent that they are in the West. Even so, academic centres supporting alternatives to animal testing have emerged in both places in recent years. In July China issued its first set of guidelines governing the use of animals in research.

In an ideal world, there would be no animal testing. It is expensive and can be of dubious scientific value, since different species often react differently to the same procedure. That is why many researchers are working on ways of reducing the number of animal experiments needed and of making those that still happen more effective. However, the transition is proving easier for some types of experiment than for others, as a group of researchers in the field discussed at the sixth World Congress on Alternatives and Animal Use in the Life Sciences, held last week in Tokyo.

The most important message from the congress was that things are going in the right direction. The number of animals used in experiments has fallen by half in the past 30 years, at least in those countries that record such things. There has also been a shift in the sort of animal used. Most of those employed today are rodents rather than dogs, cats, rabbits and monkeys. (That public opinion generally welcomes this is, however, a good example of "cutist" prejudice for one species over another: there is no reason to believe that rodents suffer less than other mammals.) Also, of the experiments that are still conducted, the majority are now concerned with developing and testing medicine rather than, say, checking how toxic cosmetics are. Of the 11m animals involved each year in experiments that have to be reported to the European Commission, about 45% are used for medical and veterinary purposes and another 35% for basic biomedical research (see chart).



Move over, Rover

These welcome trends, however, are at risk as a result of a law that began life in the commission itself. The European Union's Registration, Evaluation, Authorisation and Restriction of Chemical Substances regulations became law in June. They require the retrospective testing of thousands of substances that have been in use since before tests on new chemicals were made mandatory. The result is likely to be about 4m toxicology experiments that would not otherwise have happened.

This extra testing may or may not be good in principle, but it is likely to lead to chaos in practice. Not only will more animals be used but, according to Thomas Hartung of the European Centre for the Validation of Alternative Methods, near Milan, it could result in the withdrawal of a lot of chemicals that are in fact safe.

This undesirable result would be a direct consequence of differences among species. Experimental animals, in other words, may react badly to things that would not harm a human. In addition, some harmful chemicals may be pronounced safe for human use, because they produce no ill effects in animals. That said, many of these will already have been spotted—their everyday use is, in effect, an unplanned experiment on humans—and withdrawn. As a result, Dr Hartung estimates that false positives could outweigh false negatives 75 times over.

Genetic engineering might offer one way round this sort of problem. It could be used to add appropriate human genes to experimental animals in order to make them react more like people. With chemical testing, knowing which genes to modify is hard. However, this route is already being pursued for medical tests.

At the moment, for example, batches of vaccines for diseases like polio and yellow fever are tested on monkeys. That is nasty for the animals, which may catch the disease if the vaccine has not been made properly; indeed, this is why the tests are carried out. It is also expensive. It would be better if the tests could be done on smaller, cheaper (and less cute) animals.

An engineer's approximation

That is just what He Zhengming of China's National Institute for the Control of Pharmaceutical and Biological Products is trying to do. He is fitting mice with the human receptor for the polio virus. Mice modified in this way are more sensitive to the virus than their unmodified cousins, so subtle changes in batches of vaccine can be identified. Such tests are cheaper than those which use monkeys. They are also quicker. It takes two months of monkey-watching to be sure that a batch is safe. A mouse will tell you in two weeks.

Yet replacing monkeys with mice does not cut the number of animals used. Indeed, since researchers started employing genetically altered animals this way, that number has been creeping back up. It is worth questioning how many of the tests now conducted are necessary.

At present, all batches of vaccine are subject to the same battery of tests. Testing newly made vaccine cultures is plainly a good idea. But each new culture provides many batches and Coenraad Hendriksen of the Netherlands Vaccine Institute argues that these need be tested to ensure only that each is identical to the culture from which it is derived, rather than going through the full battery of safety tests. That would greatly reduce the number of animals required.

Other suggestions that emerged from the congress were equally straightforward. Sharing data freely between the national agencies that check the validity of new testing methods would help. So would encouraging researchers to deposit their raw data into a central database when they publish a paper based on it. And cutting the number of experiments need not be the only aim. Recent research suggests that giving pain-relieving drugs to animals that are undergoing experimental surgery does not invalidate the results. It may even enhance them, by making the animal's experience closer to a human's.

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Neuroscience

Magnetic personalities

Aug 30th 2007
From The Economist print edition

How brain disease might be diagnosed quickly and easily

MAGNETOENCEPHALOGRAPHY is a big word for a technique that measures tiny changes. It detects magnetic signals that are produced by the electrical activity of brain cells—and which have about a billionth of the strength of the Earth's magnetic field.

At the moment, it is used mainly as a research tool. But Apostolos Georgopoulos and his colleagues at the University of Minnesota, in Minneapolis, think it could be adapted for medical use. If they are right, the diagnosis of brain diseases such as Alzheimer's and schizophrenia is about to be revolutionised.

Magnetoencephalography does already have one medical use. It is employed to identify the focal points of epileptic seizures. That, however, homes in on specific parts of the brain. Dr Georgopoulos's insight was to wonder if the general hum of brain activity contains diagnostic information. And in a paper just published in the *Journal of Neural Engineering*, he reports that it might.

Last year, in work leading up to this paper, Dr Georgopoulos found a characteristic pattern in the magnetic fluctuations of healthy people's brains. He asked ten volunteers to stare at a point of light for 45 seconds as they lay under his machine. Each run of the experiment used 248 sensors and every sensor took 45,000 readings over the course of a run. Out of that plethora of data fell the human brain's synchronous background hum.

On its own, this discovery meant little. But Dr Georgopoulos wondered whether the brains of people with neurological diseases might have different yet equally distinctive magnetic patterns. To find out, he invited patients with a clear diagnosis of one of six afflictions—Alzheimer's and schizophrenia among them—to lie in his machine and concentrate on the light. Then he recorded the magnetic fluctuations of their brains.

He analysed the results using a technique called discriminant function analysis. This is a statistical trick that allows complicated data such as those from magnetoencephalography to be reduced to a small number of components whose co-ordinates can then be plotted on a standard graph. The hope is that the points on the graph will fall into clusters that correspond to something observable in the real world. And that is what happened. Each of the diseases produced a distinct cluster. Healthy brains produced a cluster that did not overlap with any of the diseases.

The question, which Dr Georgopoulos is now trying to answer, is whether the same clarity applies to people with mild symptoms that may or may not develop into something worse. If he sped up diagnosis by showing reliably who was going to become truly ill, treatment could start much earlier. He and his colleagues are therefore about to start regular tests on two groups of people suffering from mildly abnormal mental symptoms. One group is elderly and one is young.

About half of elderly people with mild cognitive impairments go on to develop Alzheimer's disease; the rest revert to the normal pattern of non-pathological decline that is the near-inevitable consequence of growing old. At the moment it is impossible to predict who will fall into which group. However, since the progress of Alzheimer's disease can be slowed by early treatment, early diagnosis would help those at risk. It would also let those who were not at risk stop worrying.

Schizophrenia, meanwhile, normally manifests itself in a person's teens but, as with Alzheimer's disease, only about half of those who show early signs go on to develop the illness. Again, treatment is possible and early treatment is best. But the drugs used have nasty side-effects and can be addictive, so it is undesirable to prescribe them unless they are likely to do some good.

Whether Dr Georgopoulos's technique can distinguish those who will become seriously ill from those who will not remains to be seen. But if his magnets do pick the right patients, neurology will have made an important step forward.

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The oldest Ethiopian

Lucy on tour

Aug 30th 2007
From The Economist print edition

THERE is nothing like taking the fight to the heart of the enemy. That is one interpretation of the decision to start Lucy's tour of the United States in Texas, a state in which the biblical account of creation is widely believed to be true. Lucy is a partial skeleton, about 40% complete, of a member of a species known as Australopithecus afarensis. She lived about 3.2m years ago in what is now Ethiopia. Australopithecus was a group of early hominids that is reckoned to be the ancestral genus of Homo, to which modern man belongs. Lucy is due to go on show at the Houston Museum of Natural Science on August 31st. Though it may tweak the noses of creationists, not everyone in the world of palaeontology is happy about the display, either. Some fear that Lucy's bones are too fragile to withstand a tour of America that is intended to last six years. Living Ethiopians, however, hope she will encourage tourists to visit them.

Getty Images

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Evolutionary biology

This old man

Aug 30th 2007
From The Economist print edition

Younger women plus older men leads to older women and more children

AFTER the nagging question of why we are here at all, the one about why we age and die comes a pretty close second. The former is still largely the province of philosophy. For the latter, though, biology has several explanations, all of which revolve around a trade-off between longevity and the ability to reproduce.

Since those who cannot breed are, evolutionarily speaking, dead already, natural selection does not usually design bodies that outlive their own fertility. But it does sometimes. And one of those sometimeses applies to humans—for women, who usually cease to be fertile in their mid-40s, routinely live until their 70s or 80s.

Part of the explanation is that a woman has not truly finished her reproductive work until her last child has reached an age at which he can fend for himself. This might get the average woman in a contraceptive-free society as far as her early 60s. But after that, something else is clearly happening. And two papers unveiled this week suggest what it is. The first of these papers, published in the *Public Library of Science* by Shripad Tuljapurkar of Stanford University and his colleagues, shows it could be a consequence of the universal pattern by which older men marry younger women. The second, published in *Biology Letters* by Martin Fieder of the University of Vienna and Susanne Huber of the Veterinary Medicine University in the same city, shows that this universal pattern is, evolutionarily, the most successful one that people can adopt.

Tearing down the wall

The observation that women should hit a “wall of death” after the menopause renders them infertile was made by Bill Hamilton, a British evolutionary biologist, in 1966. Clearly they don't. But Hamilton failed to understand why.

Hamilton's approach was purely abstract. He reasoned that harmful mutations which have their effect before the menopause (or, in the more sophisticated version, before the last child has fled the nest) will be eliminated by natural selection. Those that have their effect afterwards will not. They will thus accumulate without being winnowed out and will eventually be present in overwhelmingly lethal numbers.

Since then, what is known as the grandmother hypothesis has become popular. This suggests that women's encounter with the grim reaper is postponed because they can perform for their grandchildren services similar to those they performed for their children. This is plausible. Indeed, it is backed by data. But it may not be the only cause, and Dr Tuljapurkar has come up with a purely genetic explanation of a sort that would have been dear to Hamilton's heart.

Unlike women, men do not have their fertility cut off suddenly. Viewed as a sex alone, then, they should not face a wall of death. Rather, they should face a “slope of death” that rises as their fertility falls. Except, of course, that it takes two to tango. A man partnered with an infertile woman is, infidelity aside, as evolutionarily irrelevant as if he were sterile himself. He, too, should therefore hit the wall.

But—and this is crucial—because men almost always marry women younger than themselves, such reproductive irrelevance comes to them later in life. Indeed, if they remarry they can postpone it almost indefinitely. That means harmful mutations whose effects appear in old age can still be eliminated. And since a gene passing down the generations spends half its time in women, they get the benefit of this elimination as well. Hence no wall of death for either sex.

The question remains, though, why in human couples the man is almost always older. The usual

explanation goes something like this: men prefer women who are young and therefore maximally fertile, whereas women prefer men who have proved themselves to be genetically fit (by surviving) and to be “good providers” (by accumulating status and material possessions). Both of those things take time.

That explanation might be true. But wherever the truth lies, the consequence should be an increase in fecundity that is related to the age gap. And Dr Fieder and Dr Huber found that there is.

They did so by studying the records of 11,000 adult Swedes. They compared the number of children an individual had with the difference in age between him and his partner, or her and hers.

Among those who had stayed with one partner during their reproductive lives, they found that the peak number of children was born to women with partners four years older than themselves. The most fecund men were those with partners six years younger. Clearly, in evolutionary terms, the age difference really is good for both sides. Toyboys, apparently, just do not deliver the goods.

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Nicolas Sarkozy

The playwright and the president

Aug 30th 2007
From The Economist print edition

Personal trivia, it seems, tells us quite a lot about France's leader

L'Aube le soir ou la nuit
By Yasmina Reza

Flammarion; 190 pages; €18

Buy it at Amazon.fr

Reuters

Get article background

IT HAS become the bestselling sensation of this year's *rentrée littéraire*: a book written by France's best-known contemporary playwright about its most intriguing political personality. In the summer of 2006, Yasmina Reza, who wrote “Art” and “Conversations After a Burial”, among other plays and novels, persuaded Nicolas Sarkozy, then France's interior minister, to let her shadow him for a year in order to write his “literary portrait”. She had never met him, but he promised to open all doors: campaign meetings, studio make-up sessions, private parties, even a meeting with the Algerian president.

The newly published result is unclassifiable, neither strictly political nor purely literary. The book's cover and blurb make no mention at all of Mr Sarkozy. Inside, there are few dates or facts, no reference to ideology, nor to the political or economic backdrop to France's 2007 presidential election campaign.

Instead, Ms Reza sought to capture the dramatic essence of a deeply ambitious man who seems to want “to combat the slippage of time”. Though chronological, its form is fragmented: snatches of

conversations, observations and impressions. But the accumulated impression works. Mr Sarkozy emerges as a restless, demanding, boastful prima donna but also endearingly childlike, often funny and ultimately rather solitary.

From Orléans to Hameau des Baux, Washington to Downing Street, Ms Reza witnesses Mr Sarkozy unadorned. In one scene, he describes the French ambassador to Lebanon as “a famous cretin”, and a previous one to Russia as “an idiot”. Arriving at a rally one day to find orchestrated crowds chanting “Sarko President!”, he turns on his staff. “Who put these yelling arseholes with placards out there? None of you understand a thing about anything. Can't I be left in peace? Who organised this? Ah la la, my God, my God. It's pathetic. I'd be better off by myself.”

Ms Reza's notes also record his more commonplace traits. He is always nibbling chocolates, loves trashy television and appears awestruck by a popular novelist or a rock star. He hates the countryside; he loves Rolex watches. As victory approaches, he exclaims with wonder: “I'm going to get a palace in Paris, a chateau in Rambouillet, a fort in Brégançon. This is the life.”

Close students of French politics will also enjoy the insiderish titbits, though they will search in vain for much about Cécilia, the president's wife. She is virtually absent, Ms Reza informed a French news-magazine, because “she wasn't around”.

Ms Reza's most telling insights, however, concern two aspects of Mr Sarkozy's personality. These happen to be themes that have long fascinated the dramatist: a strange impatience to outwit time and the solitude of ambition.

The book's title, “Dawn evening or night” hints at Mr Sarkozy's restlessness: day is absent. Even the somewhat irritating absence of a comma in the title may have been meant to convey his constant rush from first light to dusk. Ms Reza notes this in small ways. Mr Sarkozy bores easily, tapping his feet, twitching or fiddling with his mobile phone when others speak. At one point, he asks an aide for some sweets, but cannot open the wrapping; there follows “a silent and violent struggle against plastic packaging”.

These little battles seem to embody a deeper impatience with the passage of time, a perpetual desire to beat it, but for what? Ms Reza is struck by a man almost unable to live in the present, propelled by an insatiable need to move on. “I'm a stranger to my past. The only thing that interests me is this afternoon, tomorrow,” he tells her one day. She replies that he is “burning up the days that he will never know”. Yes, he says quietly.

The solitude of this quest weighs on the man. Despite the public image of a politician in perpetual motion, Mr Sarkozy can be found in this book in quiet contemplation, staring blankly out of a window, or into the night. Ms Reza, who in the end cannot conceal her admiration and affection, struggles to interpret these moments. She visits him at the Elysée Palace, newly installed as president. He tells her that he has “at last got rid of a burden”. Is he content? “Yes, I am profoundly content,” he replies, then adds: “but I'm not joyful.”

L'Aube le soir ou la nuit
(Dawn evening or night). By Yasmina Reza.
Flammarion; 190 pages; €18

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Economic development

Pistols at dawn

Aug 30th 2007
From The Economist print edition

AMERICA'S greatest treasury secretary, Alexander Hamilton, met an untimely death in a duel in 1804. But his economic ideas keep firing back. In his 1791 “Report on the Subject of Manufactures”, he quarrelled with the free-trade doctrines of Adam Smith and other liberal economists. He believed the government should shelter and nurse American industry through its infancy until it was strong enough to stand against Britain's manufacturing might. Critics of free trade have reached for this “infant industry” argument ever since.

The latest thinker to pick up Hamilton's flintlock is Ha-Joon Chang of Cambridge University. According to Mr Chang, the rich nations that now hector the poor on the importance of free trade, respect for intellectual property and hospitality to foreign investors broke all of those rules when they themselves were clambering up the development ladder. They are telling the poor world to “do as we say, not as we did”, he argues.

Mr Chang made his name with his 2002 book “Kicking Away the Ladder”. That work provides much of the scholarly gunpowder for “Bad Samaritans”. But in this more polemical tract, he adds the spark of personal reflection (he grew up in South Korea, which he believes owes its economic success more to Hamilton's ideas than to Smith's) and some mischievous rhetorical set-pieces.

Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism
By Ha-Joon Chang

Random House; 276 pages; £18.99; to be published in America in December; $26.95

Buy it at
Amazon.co.uk

He opens his book with a mock article from *The Economist*, published in 2039, which looks back at the unlikely rise of a world-beating hydrogen fuel-cell maker in Mozambique. The fuel-cell division prospered only after a long and costly apprenticeship, bleeding money for 17 years. The article is based, Mr Chang says, on a real piece about South Korea's Samsung, which is now one of the world's leading exporters of semiconductors, having started life as an exporter of fish, vegetables and fruit. And the 17 years of red ink, Mr Chang points out, is the length of time Nokia's electronics division lost money.

When he isn't imagining the future, Mr Chang curates awkward historical facts calculated to discomfort neoliberals. He takes particular delight in puncturing the free-trade pretensions of the British. In 1860, 84 years after the publication of “The Wealth of Nations”, Britain forswore most import duties. But in earlier decades Britain had prospered behind manufacturing tariffs as high as 55%. It also invented some of the tricks and contrivances now associated with East Asia's aggressive export promotion, such as allowing exporters to reclaim duties paid on imported inputs.

Mr Chang argues that neoliberals have either forgotten or rewritten this “secret history”. Supported by a “financial-intellectual complex”, these ideologues urge poor countries to open up in the mistaken belief that free trade secured the West's own prosperity.

But here Mr Chang's own grip on the historical record is a bit shaky. Liberalism owes its resurgence in developing countries not to a “selective amnesia” about the 19th century, but to their recent and painful memory of post-war failure. In that period, many poor countries turned their back on trade with tragi-comic results. Cosseted industries turned out finished goods that were worth less than the imported materials from which they were made. Thomas Jefferson had warned the Hamiltonians that “the use of [subsidies] has been found almost inseparable from abuse.” In post-war Africa, Latin America and South Asia, he was proved right.

Only East Asia succeeded in encouraging manufacturing without discouraging exports. This was not an easy trick to pull off—import tariffs act as a tax on exporters, a burden the state had to offset with subsidies, duty drawbacks and cheap credit. Some scholars still wonder if this meddling was worth the risk and expense.

These devices were not the only thing the tigers had going for them. At the time of Mr Chang's birth in 1963, South Korea was blessed with a young, literate and biddable workforce; it also lacked large tracts of arable land or rich deposits of natural resources. Even without the visible hand of government to guide it, the country's future clearly lay in making stuff, rather than drilling, mining or growing it. Once its military government devalued the currency and loosened restrictions on imported materials, South Korea was free to fulfil its destiny. It began with light manufacturing, using simple technologies that did not require a long apprenticeship to master. Its growth was certainly impressive. But a country that saves and invests as heavily as South Korea did can arguably transform itself even without recourse to any Hamiltonian magic.

For all his scholarly verve, Mr Chang gives his readers no more than a glimpse of the lively debate that still flowers about the historical episodes he describes. His book will not settle this 200-year duel between the Hamiltonians and the liberals. But he succeeds in drawing a few flecks of blood on his opponents' waistcoats.

Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism.
By Ha-Joon Chang
Random House; 276 pages; £18.99; to be published in America in December; $26.95

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Renaissance explorers

New World disorder

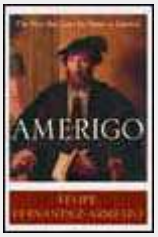
Aug 30th 2007
From The Economist print edition

THANK goodness the New World is not called something like Christopheria, as some of the great explorer's partisans demanded. Christopher Columbus has such an ineluctable presence in history that a hemisphere named after him might never be free of certain associations. Every time that Christopheria was mentioned, images of imperialism, evangelisation and massacre might spring to uneasy minds. The controversies would be constant.

In coming to this conclusion in his masterful biography of Amerigo Vespucci, the explorer whose name eclipsed Christopheria, Columba and other such possibilities, Felipe Fernández-Armesto, a professor at Tufts University, argues: “America, by comparison, seems a neutral term.” But this, in his book, does not mean that Vespucci (1454-1512) is unworthy of having two continents called after him.

He had his weaknesses: his cosmography was amateurish, his navigation overrated, his writing feeble. His behaviour was often shabby, even slimy. He possessed none of Columbus's piety. Religion sometimes revolted him and his fellow men seemed to him “more like the image of a brute beast than of that omnipotent deity”. Yet Vespucci's enterprising life was never boring and his far-fetched tales ought not to be judged by today's exacting standards. When seen through Mr Fernández-Armesto's scholarly eyes, his lies are not really whoppers. They provide a guide to the thought processes of Europeans living in the 15th and 16th centuries.

Amerigo: The Man Who Gave His Name to America
By Felipe Fernández-Armesto



Random House; 231 pages; $24.95
Weidenfeld & Nicolson; £16.99

Buy it at
Amazon.com
Amazon.co.uk

Vespucci's contemporaries were not in thrall to hard facts based on firm evidence. Their world view was far closer to the magic realism of such Latin American novelists as Jorge Luis Borges and Gabriel Garcia Márquez than to the methodology of modern historians. So Vespucci, a Florentine adventurer variously in the employ of the Portuguese and Spanish crowns, met the expectations of the reading public of his day when he let his imagination rip in describing his voyages along the eastern coast of South America. His encounters with lions, baboons and many other species alien to the New World were a familiar and acceptable genre.

His descriptions of the people he met on his travels were almost as fabulous. Again, the intention was to please his readers. They liked to imagine the inhabitants of the new continent “as denizens of a golden age of sylvan innocence, or as implausibly superior savages—moral exempla for the implicit chastisement of civilised vice.”

When they described hostile natives as friendly traders, Vespucci and his fellow explorers served their vested interests. In order to attract investors, obtain patronage, hire crews and recruit colonists, they needed to represent the lands they discovered as commercially attractive. Their descriptions of the climate served the same end. The New World was so conducive to life and health, Vespucci opined, that “doctors would find it ruinous to live there”.

During his lifetime, Vespucci prospered from his mendacity. He was honoured by scholars and rewarded by kings. His lies were eventually exposed but not fast and broadly enough to dissuade Mercator from giving both continents in the New World the name of America on his influential map of the world. “The tradition was secure, the decision was irreversible.”

Were Vespucci's deceptions all that wicked? Mr Fernández-Armesto doubts it. Falsehood was then part of the fabric of the explorer's life; corrupt sources bedevilled travel literature in the 16th century. Even today, he asks, how many globe-trotters could fairly be put on their honour to tell the unembroidered truth? It is a fair question. Recent biographies have shown that such successful travel writers as Laurens

van der Post and Bruce Chatwin told a story or two as tall as Vespucci's.

Amerigo: The Man Who Gave His Name to America.
By Felipe Fernández-Armesto.
Random House; 231 pages; $24.95
Weidenfeld & Nicolson; £16.99

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Single women

Send them to the colonies

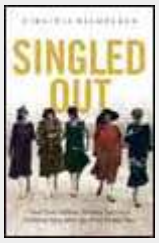
Aug 30th 2007
From The Economist print edition

THIS is an inspiring book, lovingly researched, well-written and humane. Virginia Nicholson has found one of those subjects which sits unregarded under our noses, and has discovered in it a rich seam of personal and historical interest.

She writes about British spinsters, in particular about the ones that would have married the "lost generation" of the first world war. They were known as the "surplus" women, and the 1921 census revealed that there were 1.75m of them. Since women rarely married outside their class, and since, proportionately, the officer class suffered the greatest losses, it was middle-class women who were hardest hit. Ms Nicholson quotes a headmistress bleakly informing her pupils in 1917 that "only one out of ten of you girls can ever hope to marry...You will have to make your way in the world as best you can."

There had always been spinsters, but on this scale they were something else. Male reaction was hysterical. Marriage and motherhood were what women had always been for. Without them, the abyss opened. They must be shipped to the colonies. The *Daily Mail* deplored the situation and books on psychology gave warning that the single woman was a danger to society, morality and her own sanity. But the real nightmare was that she might learn to do without men altogether.

Singled Out: How Two Million Women Survived Without Men after the First World War
By Virginia Nicholson



Viking; 312 pages; £20

Buy it at
Amazon.co.uk

These men were right to be alarmed. By a cruel irony, the war was an opportunity, a challenge to the patriarchy. It opened up the job market and the professions, making economic independence possible. The book follows a path—gradual, faltering, uneven—away from the post-war sense of loss and hopelessness, through a process of self-reinvention for women, arriving at a point where work, public service, travel and friendship had created enough happy single women to justify men's fear that life without a husband and children was not only possible, but could be fun.

The charm of "Singled Out" lies not so much in its uplift as in its method and atmosphere. Ms Nicholson's history covers the ground—the statistics, campaigns and legislation—but it is also intimate and personal, woven through with voices and stories. She draws on scores of biographies, autobiographies and novels, has trawled the collections of oral history, the archives of unpublished diaries, memoirs and correspondence—and has added her own interviews with ancient ladies in residential homes.

Sympathetically and patiently she brings before her readers the forgotten Ethels and Mabels whose sweethearts lay buried in France. She describes how they worked at the mill or opened a bookshop; got themselves a training and became a nurse, a marine engineer or an office clerk; how they danced with girlfriends and hoped for a man—or never expected one, and lived alone in a single room with tinned sardines and pineapple chunks in the cupboard.

The period is beautifully caught: the no-nonsense cheerfulness of the women's magazines' advice columns; the tentative language of sexual feeling; the belief in hard work and exercise, and above all, the understatement. "One was a good deal cut up by the war," wrote Ivy Compton-Burnett, a novelist. "One's brother was killed, and one had family troubles."

For some readers, the book will trigger memories of battle-axe matrons, remarkably cultured teachers, great-aunts whose stories were never explained. Some wore tweed jackets and sensible shoes and some kept house together like married couples. No one asked or questioned. Ms Nicholson shows us these people again, not as comic cartoons but as spirited and stoical precursors of modern feminism.

Singled Out: How Two Million Women Survived Without Men after the First World War.

By Virginia Nicholson.
Viking; 312 pages; £20

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Theatre

Complicite's tricks

Aug 30th 2007
From The Economist print edition

How to be both established and experimental

THEATRICAL experiments are plentiful but few last. Theatre companies that set off bristling with the desire for change often fall by the wayside. They start as a breath of fresh air but seldom stay fresh. Complicite is one of the rare exceptions.

The group known as Théâtre de Complicité (it simplified its name about seven years ago) began in the 1980s as a collective of Paris-trained actors who broke the rules of text-based, theme-driven drama. The emphasis was on movement, mime and clowning. None of the early shows had a written text. They had a larky, cartoon quality and were wickedly satirical.

In the 1990s the group became more theatrically self-conscious. “The Street of Crocodiles” (1992), based on the life and work of Bruno Schulz, a Polish writer, and, two years later, “The Three Lives of Lucie Cabrol”, after a story by John Berger, displayed technical bravura as well as careful acting. More recently, shows such as “Mnemonic” (1999), inspired by a corpse preserved from the Ice Age, and “The Noise of Time” (2000), about Shostakovich, were quieter, even contemplative. All the plays are collaborations between Simon McBurney, the group's British-born founder-member, and his chosen actors. But Mr McBurney, now 50, is sole artistic director and usually the source of the idea from which each show grows.

His latest play, “A Disappearing Number”, is about the five years that a self-taught Indian mathematician, Srinivasa Ramanujan, spent at Cambridge University and his relationship with a maths professor at Trinity College, G.H. Hardy. Ramanujan's ideas had astounded Hardy when the young Indian first wrote to him. After arriving in Cambridge in 1913, Ramanujan worked brilliantly for a time but, a strict Hindu and vegetarian, he was unable to adapt to wartime England and died, back in India, aged 32.

After reading Hardy's autobiography “A Mathematician's Apology”, Mr McBurney says he became fascinated by what he calls maths's uncertainty: “Ramanujan had an imaginative connection with maths. This, I came to understand, is very much an Indian thing: enjoyment of maths there is part of enjoying life.” In his play he has been careful not to burden the audience with too much mathematical theory; rather, he portrays the loneliness of genius, the human need to be rooted— and the playfulness of maths.

Given Mr McBurney's intensely visual approach to drama, combining abstract ideas with theatrical tricks was inevitable. Simple chairs, for instance, become train carriages or aeroplane seats. Four plots interweave: the story of Ramanujan in Cambridge; the desire of Ruth, a modern-day lecturer, to have children; an Indian businessman returning from Los Angeles to the subcontinent; an Indian scientist visiting CERN, a particle-physics laboratory.

A huge oblong lecture-board becomes a revolving flap through which the nine actors walk from one story, time-zone or culture to another. The play is also funny: in a subplot, a man called Al accidentally locks himself into the lecture room and strikes up a friendship with a woman in an Indian call centre. If anything, too much is going on, with ideas unfolding at dazzling speed but not always coalescing.

This might change in London, where the show opens next week after touring festivals in Vienna and Amsterdam in the spring. Reshaping a play—trimming storylines, expanding others, right up to the last minute—is typical of Complicite. “Work develops all the time,” says Mr McBurney. “Ideas are gradually refined until you begin to understand what you've made.” Mr McBurney has turned his company into a brand name that is invited all over the world but everything it does still resounds with the exuberant, sometimes wayward, notes of experiment.

“A Disappearing Number” opens at the Barbican Centre, London, on September 5th.

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Art in Edinburgh

Beyond the Fringe

Aug 30th 2007
From The Economist print edition

“The Naked Portrait” and other delights outlive the annual hijinks

BETTER co-ordination between Edinburgh's festival and its art galleries might give the 1m or so who visit the festival each August a better chance to see the city's art exhibitions. This would, at the least, give their bottoms a rest from the plays, concerts and comedy shows at the hundreds of venues offered by the festival and its rival, the chaotic, ebullient Edinburgh Fringe. Indeed, something of the sort seems on the way. Jonathan Mills, fresh from directing his first festival, has told the galleries, confidentially, the main themes of his festivals for the next two years; it's up to them to respond, he says.

Even without such collusion, an exhibition at the Scottish National Portrait Gallery has attracted more attention than usual. Called “The Naked Portrait”, it explores the development, since the early 1900s, of pictures of the unclothed body. First off the mark was Egon Schiele, who painted himself and his close friends. Other painters include Pierre Bonnard, Lovis Corinth, Stanley Spencer, Francis Bacon and Lucian Freud. There are photographs ranging from nobodies in nudist camps to celebrities such as John Lennon and Marilyn Monroe; friendly scenes, like Elinor Carucci's snap of her mother; and enormous landscapes of body-hair and flesh by John Coplans and Jenny Saville.

Little is pretty but it's weirdly fascinating to see fellow humans stripped of their garb. Does it get closer to the truth or does it alienate? Martin Hammer, co-curator of the show, hopes that the verdict of his ten-year-old daughter—“gross and disgusting”—is not widely shared.

The relationship between the artist and his model is a companion theme in Picasso's works on paper, shown at the Dean Gallery. Picasso often depicted himself as a Minotaur preying on a naked woman, usually his lover of the time. His many etchings and engravings exploring these forms have a wonderful certainty of line and great clarity.

Across the road at the Scottish National Gallery of Modern Art are works by Richard Long, who since the 1960s has made a career of recording his walks and the subtle changes these made to the landscape: a line of stones on a river bottom in Tennessee, a path tramped on a Scottish hillside. They are man's small impression on a giant landscape, a nice counterpoint to the giant fleshscapes at the Portrait Gallery.

With the festival ending this week, most of the exhibitions drift on into the autumn. But fans of naked portraits must follow them from Scotland to middle England, where the paintings will soon be on show at Compton Verney.

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Tikhon Khrennikov

Aug 30th 2007
From The Economist print edition

Tikhon Khrennikov, Stalin's music master, died on August 14th, aged 94

Lebrecht music and arts

HAD he been born in Iowa, Tikhon Khrennikov might have enjoyed a modest fame. Early discovery as a talented pianist; studies in composition, perhaps at the Juilliard School; schmoozing with Hollywood actors and directors, who would have appreciated his amiable character and his ear for a good tune. Irving Berlin and George Gershwin might have been his friends; he might have been remembered, like them, for hummable classics.

But Mr Khrennikov was born, one of ten children, into a horse-trading family in provincial Yelets, four years before the Russian revolution; and he died 16 years after the Soviet Union became Russia again. Over this period he was presented with moral choices and political demands which, as a musician, he should have been spared. He was not—like Sergei Prokofiev or Dmitri Shostakovich—a great composer. But he was the chief composer.

As secretary of the composers' union, a title he received from Joseph Stalin in 1948 and kept until the USSR disintegrated, in 1991, Mr Khrennikov had enormous powers. But he had never sought them. He had come to Moscow to be a musician, and seemed likely to succeed: not so much with classical pieces, though his first symphony was conducted by the flamboyant and popularising Leopold Stokowski, but with scores for theatre and film.

The music that made him most popular was the set of songs and serenades he wrote for the 1936 production of “Much Ado About Nothing” at the Vakhtangov theatre in Moscow. That moment was one of respite and relief, squeezed between brutal collectivisation and the beginning of the great terror. In 1935 Stalin proclaimed that “Life has become better, comrades, life is becoming more joyful,” and Mr Khrennikov's music fitted perfectly that brief, cloudless mood. In the imagined world of the Vakhtangov production evil was simply a mistake, introduced from outside, that had to be corrected.

Water-glasses and storms

Two years later such a mistake crept into Mr Khrennikov's own life. His two brothers were arrested on bogus charges. He tried to correct this evil, hiring the best lawyer he could find, and, incredibly, managed to rescue one of them. The other, however, disappeared in the Gulag.

Mr Khrennikov was scarred, but his music was unaffected. Just as Shostakovich captured the tragic side

of Soviet culture, so Mr Khrennikov unswervingly expressed its optimism and Social-Realist clarity. At school, a favourite instrument had been the bright, sunny-sounding water-glasses. In later life, his songs were like him: benevolent, lyrical, slightly overweight, decent and well-meaning.

In 1939 his opera “Into the Storm”, based on a heavyweight novel by Nikolai Virta, was the first in which Lenin appeared as a character on the stage. The production was praised by Stalin and encouraged him, later, to give Mr Khrennikov his post at the composers' union. This appointment, coinciding with Stalin's campaign against “formalism” and “rootless cosmopolitans” proved as much a curse as a reward. Mr Khrennikov was only 35; his career was young. “I want to write music. What am I to do?” he asked Alexander Fadeev, the head of the writers' union, as both men waited for their special food parcels. “Connive,” replied Fadeev.

Mr Khrennikov did so. That year he read out a draconian speech which condemned Shostakovich and Prokofiev for their formalism, accusing Prokofiev of “grunting and scraping”. But he claimed that the speech had been pre-written in the Kremlin; he himself liked Prokofiev's music as much as he liked Bach and Tchaikovsky. “Live and let live” had been his father's advice to him. For all his rhetoric, he attended Prokofiev's funeral in 1953 and helped his first wife when she came out of prison. Though he publicly disliked the avant-garde music of Alfred Schnittke, he was among the first to help Schnittke when he suffered a stroke in 1985. And he was instrumental in inviting Igor Stravinsky to Russia in 1962.

He was part of a ruthless system; but he did not deliver up Jewish composers to Stalin's goons, and did not write negative references when the party demanded them. (Instead, he would say that the composer had been warned of the dangers of modernism, as if the lesson was already safely learned.) None of the composers he had charge of was killed; very few were arrested. Many, however, reported on him—for being influenced by his Jewish wife, Klara Vaks, and for sheltering Jews. But Stalin's approval gave him a certain freedom. Instead of writing hymns to his boss, like many of his peers, he made songs about the soft light in Moscow windows.

Having made himself comfortable within the regime, he extended these comforts to others. The Soviet Union looked after its artists well. Mr Khrennikov had a huge budget which was spent on building special apartments and dacha compounds for composers. The world he created behind the gates of the Ruza compound by the Moscow river, where among small lanes and woods “his” composers could find a strange, beguiling privacy, was much more tolerant than the country. The Western press called him a lackey and dictator when he died, but Russians, who knew him, did not.

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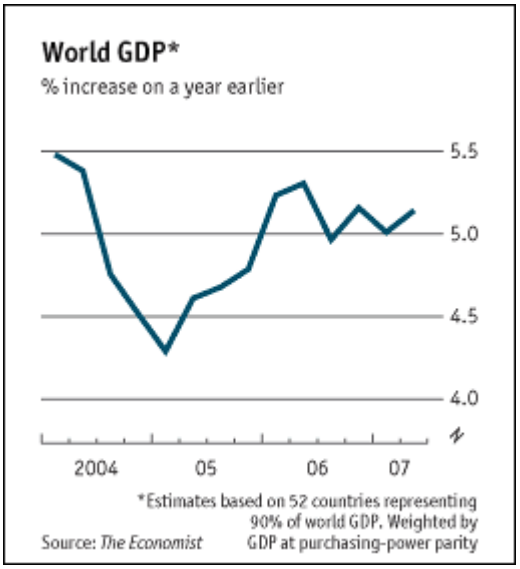
Overview

Aug 30th 2007
From The Economist print edition

German businessmen are less cheery about the economy, according to the Ifo survey of the business climate. The index slipped to 105.8 in August from 106.4 in July.

In **America**, sales of existing homes fell by 0.2% in July, to 5.75m at an annual rate, 9% lower than a year earlier. The stock of such homes on sale rose by 5.1% in the month to 4.59m, equivalent to 9.6 months' supply (up from 9.1 months in June). The S&P/Case-Shiller index of national home prices fell by 3.2% in the year to the second quarter. One bright spot in America's gloomy housing market was sales of new homes, which rose by 2.8% in July.

Poland's central bank raised its benchmark interest rate by 0.25 percentage points to 4.75%, the third such increase this year.



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Output, prices and jobs

Aug 30th 2007
From The Economist print edition

Infographics

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+1.8 Q2	+3.4	+2.0	+2.6	+1.4 Jul	+2.4 Jul	+4.1	+2.8	4.6 Jul
Japan	+2.3 Q2	+0.5	+2.6	+2.3	+1.1 Jun	−0.2 Jun	+0.5	nil	3.7 Jun
China	+11.9 Q2	na	+10.5	+9.6	+18.0 Jul	+5.6 Jul	+1.0	+3.0	9.5 2006
Britain	+3.0 Q2	+3.3	+2.8	+2.3	+0.8 Jun	+1.9 Jul**	+2.4	+2.4	5.4 Jun††
Canada	+2.0 Q1	+3.7	+2.5	+2.7	−0.1 May	+2.2 Jul	+2.3	+2.4	6.0 Jul
Euro area	+2.5 Q2	+1.2	+2.7	+2.3	+2.3 Jun	+1.8 Jul	+2.4	+2.0	6.9 Jun
Austria	+3.8 Q2	+4.0	+3.0	+2.7	+6.0 Jun	+2.1 Jul	+1.8	+1.9	4.3 Jul
Belgium	+2.9 Q2	+2.4	+2.7	+2.4	+1.9 Jun	+1.4 Jul	+1.6	+1.8	11.7 Jul‡‡
France	+1.3 Q2	+1.3	+2.0	+2.2	−0.8 Jun	+1.1 Jul	+1.9	+1.5	8.0 Jun
Germany	+2.5 Q2	+1.0	+2.8	+2.4	+4.9 Jun	+1.9 Aug	+1.7	+1.9	9.0 Jul
Greece	+4.2 Q2	na	+3.7	+3.2	+1.3 Jun	+2.5 Jul	+3.8	+2.6	7.7 May
Italy	+1.8 Q2	+0.5	+2.0	+1.7	−0.1 Jun	+1.6 Jul	+2.2	+1.9	6.2 Q1
Netherlands	+2.4 Q2	+0.6	+2.8	+2.6	+1.1 Jun	+1.5 Jul	+1.6	+1.9	4.7 Jul††
Spain	+4.0 Q2	+3.2	+3.7	+2.7	+2.0 Jun	+2.2 Jul	+4.0	+2.7	8.0 Jul
Czech Republic	+6.1 Q1	+6.1	+5.2	+4.0	+6.9 Jun	+2.3 Jul	+2.9	+2.6	6.4 Jul
Denmark	+0.6 Q2	−1.6	+2.1	+2.0	−2.5 Jun	+1.2 Jul	+2.0	+1.9	3.3 Jul
Hungary	+1.4 Q2	+0.8	+2.7	+3.0	+8.9 Jun	+8.4 Jul	+3.0	+7.5	7.0 Jun††
Norway	+3.9 Q2	+3.5	+2.7	+2.5	−4.0 Jun	+0.4 Jul	+2.2	+0.8	2.5 Jul††
Poland	+6.7 Q2	na	+6.3	+5.1	+10.4 Jul	+2.3 Jul	+1.1	+2.3	12.2 Jul‡‡
Russia	+7.9 Q1	na	+6.7	+6.2	+7.8 Jul	+8.8 Jul	+9.6	+7.8	5.8 Jul‡‡
Sweden	+3.6 Q2	+3.9	+3.5	+3.2	+5.0 Jun	+1.9 Jul	+1.7	+2.1	5.0 Jul‡‡
Switzerland	+2.4 Q1	+3.2	+2.4	+2.1	+7.3 Q1	+0.7 Jul	+1.4	+0.7	2.5 Jul‡‡
Turkey	+6.8 Q1	na	+6.0	+5.2	+1.8 Jun	+6.9 Jul	+11.7	+9.0	8.9 Q2‡‡
Australia	+3.8 Q1	+6.6	+3.6	+3.3	+5.5 Q1	+2.1 Q2	+4.0	+2.3	4.3 Jul
Hong Kong	+6.9 Q2	+8.2	+5.9	+5.2	−1.5 Q1	+1.5 Jul	+2.3	+1.9	4.1 Jul††
India	+9.1 Q1	na	+8.4	+7.9	+9.8 Jun	+5.7 Jun	+7.7	+5.8	7.6 2006
Indonesia	+6.3 Q2	na	+6.3	+6.2	+3.6 Jun	+6.1 Jul	+15.2	+5.8	9.8 Feb
Malaysia	+5.7 Q2	na	+5.9	+5.7	+0.5 Jun	+1.6 Jul	+4.1	+2.1	3.4 Q1
Pakistan	+6.6 2006§§	na	+6.4	+5.8	+6.0 Jun	+6.4 Jul	+7.6	+6.5	na
Singapore	+8.6 Q2	+14.0	+6.2	+4.4	+21.6 Jul	+2.6 Jul	+1.1	+0.9	2.4 Q2
South Korea	+4.9 Q2	+7.0	+4.7	+5.1	+14.3 Jul	+2.5 Jul	+2.4	+2.4	3.4 Jul
Taiwan	+5.1 Q2	na	+4.4	+4.6	+13.0 Jul	−0.3 Jul	+0.8	+0.9	3.9 Jul
Thailand	+4.3 Q1	+4.9	+4.2	+4.8	+4.9 Jun	+1.7 Jul	+4.4	+2.3	1.6 Mar
Argentina	+8.0 Q1	+4.1	+7.3	+5.5	+2.3 Jul	+8.6 Jul	+10.6	+9.1	8.5 Q2‡‡
Brazil	+4.3 Q1	+3.2	+4.6	+4.3	+6.6 Jun	+3.7 Jul	+4.0	+3.5	9.5 Jul‡‡
Chile	+6.1 Q2	+6.5	+5.9	+5.3	+4.0 Jul	+3.8 Jul	+3.8	+3.3	7.0 Jul††‡‡
Colombia	+8.1 Q1	+10.3	+6.4	+5.1	+11.9 Jun	+5.8 Jul	+4.3	+5.7	11.1 Jun‡‡
Mexico	+2.8 Q2	+5.3	+3.1	+3.4	+0.1 Jun	+4.1 Jul	+3.1	+3.9	4.0 Jul‡‡
Venezuela	+8.9 Q2	na	+5.9	+4.0	+9.0 May	+17.2 Jul	+13.5	+18.1	8.0 Q2‡‡
Egypt	+7.4 Q1	na	+7.0	+7.2	+10.5 2006	+8.0 Jul	+8.4	+8.4	9.0 Q1‡‡
Israel	+4.4 Q2	+6.1	+5.1	+4.5	+1.3 Jun	+0.3 Jul	+2.4	+0.3	7.6 Q2
Saudi Arabia	+4.3 2006§	na	+4.0	+5.7	na	+3.8 Jul	+2.2	+3.0	na
South Africa	+5.0 Q2	+4.5	+4.8	+5.2	+2.0 Jun	+7.0 Jul	+5.0	+5.8	25.5 Sep‡‡
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	+7.3 Q2	na	+9.4	+5.8	+4.5 Jun	+6.4 Jul	+4.5	+5.5	5.1 Jun
Finland	+5.4 Q1	+3.4	+3.9	+2.7	+0.3 Jun	+2.6 Jul	+1.9	+1.4	6.9 Jul
Iceland	−0.1 Q1	−3.6	+0.8	+1.8	+7.6 2006	+3.4 Aug	+8.6	+4.6	0.9 Jul‡‡
Ireland	+7.5 Q1	+20.1	+4.8	+3.4	+0.1 Jun	+5.0 Jul	+4.2	+4.5	4.6 Jul
Latvia	+11.3 Q2	na	+9.6	+7.5	+1.2 Jun	+9.5 Jul	+7.0	+8.3	5.7 Jun
Lithuania	+8.0 Q2	+8.2	+7.8	+6.9	na	+5.1 Jul	+4.4	+4.6	2.8 Jul
Luxembourg	+6.2 Q1	+6.6	+5.2	+4.2	−1.5 May	+1.9 Jul	+2.9	+2.2	4.1 Jun‡‡
New Zealand	+2.7 Q1	+2.5	+2.8	+3.1	nil Q1	+2.0 Q2	+4.0	+2.4	3.6 Q2
Peru	+6.7 Jun	na	+7.1	+5.5	+9.7 Jun	+2.2 Jul	+1.5	+1.2	7.6 Jun‡‡
Philippines	+7.5 Q2	+7.1	+6.0	+5.6	−4.7 Jun	+2.6 Jul	+6.4	+2.9	7.4 Q2‡‡
Portugal	+1.6 Q2	+1.7	+1.8	+2.1	+0.6 Jun	+2.4 Jul	+3.0	+2.3	7.9 Q2‡‡
Slovakia	+9.2 Q2	na	+8.0	+6.0	+12.0 Jun	+2.3 Jul	+5.0	+2.7	8.3 Jul
Slovenia	+7.2 Q1	na	+5.6	+4.6	+6.0 Jun	+3.8 Jul	+1.9	+3.0	7.5 Jun‡‡

*% change on previous quarter, annual rate. †*The Economist* poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 3.8% in Jul. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Aug 30th 2007
From The Economist print edition

Infographics

The Economist commodity-price index

2000=100

	Aug 21st	Aug 28th*	% change on one month	% change on one year
Dollar index				
All items	195.1	200.3	–1.8	+16.6
Food	173.5	176.9	+2.5	+33.2
Industrials				
All	223.1	230.5	–5.8	+3.8
Nfa†	158.2	158.3	–3.5	+7.6
Metals	258.5	269.9	–6.5	+2.7
Sterling index				
All items	149.2	151.1	–0.7	+9.8
Euro index				
All items	133.8	135.7	–1.5	+9.0
Gold				
$ per oz	658.00	662.70	–0.3	+6.6
West Texas Intermediate				
$ per barrel	69.50	71.84	–8.0	+3.0

*Provisional †Non-food agriculturals.

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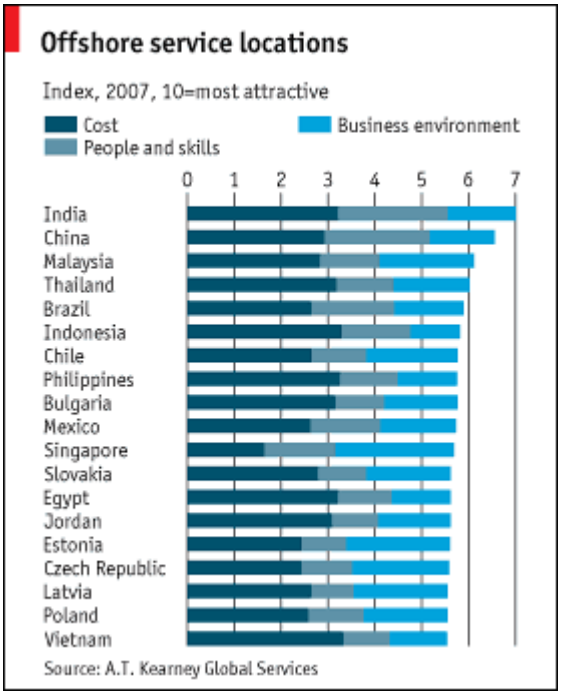
Offshore service locations

Aug 30th 2007
From The Economist print edition

Infographics



India is still the most attractive country to which to move back-office operations, according to the 2007 Global Services Location Index compiled by A.T. Kearney. The index evaluates 50 countries according to three main categories: financial attractiveness, availability of skilled workers and the business environment. India stays ahead of China, ranked second, thanks to lower wage, infrastructure and regulatory costs. Both countries lead the rest by a good margin. Policies to promote service exports in Latin America have helped Brazil and Mexico rise in the global league. Less established locations in eastern Europe, such as Bulgaria and Slovakia, are now ranked higher than either Poland or the Czech Republic.

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Trade, exchange rates, budget balances and interest rates

Aug 30th 2007
From The Economist print edition

Infographics

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†‡	Currency units, per $ Aug 29th	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−823.4 Jun	−803.4 Q1	−5.8	–	–	−1.3	5.24	4.56
Japan	+94.9 Jun	+192.6 Jun	+4.4	115	117	−2.9	0.69	1.61
China	+238.7 Jul	+249.9 2006	+10.7	7.55	7.96	−0.7	3.27	4.44
Britain	−155.8 Jun	−93.0 Q1	−3.2	0.50	0.52	−2.7	6.58	5.02
Canada	+50.0 Jun	+18.5 Q1	+1.6	1.06	1.11	0.6	3.88	4.38
Euro area	+24.1 Jun	+3.6 Jun	+0.1	0.73	0.78	−0.7	4.72	4.21
Austria	+1.0 May	+13.2 Q1	+3.0	0.73	0.78	−0.8	4.72	4.35
Belgium	+18.1 Jun	+12.5 Mar	+2.2	0.73	0.78	−0.1	4.79	4.36
France	−38.0 Jun	+15.7 Jun	−1.0	0.73	0.78	−2.5	4.72	4.30
Germany	+239.9 Jun	+182.2 Jun	+4.9	0.73	0.78	0.5	4.72	4.21
Greece	−47.4 May	−34.2 Jun	−8.6	0.73	0.78	−2.4	4.72	4.55
Italy	−21.2 May	−50.3 Jun	−2.3	0.73	0.78	−2.6	4.72	4.52
Netherlands	+47.1 Jun	+53.5 Q2	+7.7	0.73	0.78	0.6	4.72	4.30
Spain	−121.0 Jun	−119.7 May	−8.8	0.73	0.78	2.1	4.72	4.33
Czech Republic	+2.9 Jun	−5.0 Jun	−4.1	20.2	22.0	−4.2	3.35	4.48
Denmark	+5.4 Jun	+5.3 Jun	+2.1	5.46	5.81	3.8	4.85	4.32
Hungary	−2.2 Jun	−6.2 Q1	−5.2	189	214	−6.0	7.75	6.60
Norway	+54.0 Jul	+57.3 Q1	+14.9	5.84	6.31	16.8	5.27	4.76
Poland	−7.5 May	−11.5 Jun	−3.0	2.81	3.07	−2.3	4.97	5.79
Russia	+126.9 Jun	+77.7 Q2	+6.8	25.7	26.7	3.0	10.00	6.26
Sweden	+19.4 Jul	+29.7 Q2	+6.8	6.88	7.21	2.4	3.54	4.15
Switzerland	+11.1 Jul	+102.1 Q1	+16.1	1.20	1.23	0.3	2.85	2.93
Turkey	−54.1 Jun	−31.7 Jun	−6.2	1.32	1.48	−2.9	18.85	6.91§
Australia	−10.9 Jun	−47.1 Q2	−5.4	1.22	1.31	1.3	6.81	5.86
Hong Kong	−20.0 Jul	+23.8 Q1	+10.1	7.80	7.78	1.8	4.80	4.27
India	−67.7 Jun	−9.6 Q1	−1.4	41.1	46.5	−3.3	6.79	8.20
Indonesia	+42.1 Jun	+10.3 Q1	+2.2	9,415	9,120	−1.6	8.00	7.07§
Malaysia	+28.9 Jun	+25.9 Q1	+14.3	3.50	3.68	−3.1	3.62	5.17§
Pakistan	−13.4 Jul	−6.8 Q1	−4.1	60.8	60.4	−4.6	9.79	9.04§
Singapore	+37.0 Jul	+41.6 Q2	+24.0	1.52	1.57	0.3	2.72	2.85
South Korea	+19.4 Jul	+5.2 Jun	+0.3	942	962	0.5	5.26	5.44
Taiwan	+12.3 Jul	+28.3 Q2	+5.8	33.1	32.9	−1.9	2.55	2.51
Thailand	+9.3 Jun	+11.1 Jun	+3.2	34.3	37.6	−1.9	3.55	4.20
Argentina	+11.2 Jun	+7.8 Q1	+3.4	3.16	3.10	1.3	12.44	na
Brazil	+45.0 Jul	+11.5 Jul	+0.7	1.99	2.13	−2.3	11.43	6.16§
Chile	+25.3 Jul	+8.3 Q2	+3.6	526	537	8.0	5.52	5.42§
Colombia	−0.9 Apr	−4.1 Q1	−3.0	2,164	2,394	−0.8	8.43	6.48§
Mexico	−0.8 Jul	−7.0 Q2	−1.0	11.1	10.9	0.1	7.23	7.86
Venezuela	+28.2 Q1	+20.4 Q2	+9.8	2,147	2,678	−3.7	11.13	6.55§
Egypt	−14.1 Q1	+3.1 Q1	+2.3	5.66	5.74	−5.6	7.82	5.48§
Israel	−8.5 Jul	+8.1 Q1	+3.5	4.12	4.37	−1.1	4.47	5.39
Saudi Arabia	+146.6 2006	+98.9 2006	+24.0	3.75	3.75	19.2	5.03	na
South Africa	−9.3 Jun	−16.6 Q1	−6.2	7.24	7.08	0.5	10.20	8.46
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−4.1 May	−3.1 Apr	−16.5	11.5	12.2	1.7	5.06	na
Finland	+12.3 Jun	+12.1 Jun	+6.2	0.73	0.78	4.2	4.68	4.30
Iceland	−1.8 Jul	−4.0 Q1	−17.1	64.1	69.1	3.7	14.13	na
Ireland	+36.0 Jun	−10.6 Q1	−5.0	0.73	0.78	1.0	4.72	4.30
Latvia	−6.7 Jun	−5.7 Jun	−22.2	0.51	0.54	nil	8.17	na
Lithuania	−6.4 Jun	−4.2 Jun	−13.0	2.53	2.69	−0.5	5.52	na
Luxembourg	−5.5 May	+4.5 Q1	na	0.73	0.78	0.3	4.72	na
New Zealand	−4.4 Jul	−9.1 Q1	−9.8	1.43	1.54	4.9	7.10	6.32
Peru	+9.1 Jun	+2.7 Q1	+1.9	3.16	3.24	0.4	4.75	na
Philippines	−3.4 Jun	+5.7 Mar	+5.1	46.8	51.0	−1.1	6.75	na
Portugal	−23.3 May	−17.8 May	−7.9	0.73	0.78	−3.3	4.72	4.47
Slovakia	−2.1 Jun	−3.5 Apr	−4.5	24.8	29.4	−2.9	4.14	4.58
Slovenia	−2.4 Jun	−1.6 May	−2.6	0.73	0.78	−1.2	na	na

*Merchandise trade only. †*The Economist* poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Aug 30th 2007
From The Economist print edition

Infographics

Markets

	Index Aug 29th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,289.3	+0.4	+6.6	+6.6
United States (S&P 500)	1,463.8	nil	+3.2	+3.2
United States (NAScomp)	2,563.2	+0.4	+6.1	+6.1
Japan (Nikkei 225)	16,012.8	+0.7	–7.0	–3.7
Japan (Topix)	1,557.6	+0.8	–7.3	–4.0
China (SSEA)	5,365.5	+2.6	+90.6	+95.7
China (SSEB, $ terms)	313.9	–0.1	+134.9	+141.2
Britain (FTSE 100)	6,132.2	–1.0	–1.4	+0.3
Canada (S&P TSX)	13,490.1	+0.2	+4.5	+14.5
Euro area (FTSE Euro 100)	1,317.7	–0.4	+3.1	+5.6
Euro area (DJ STOXX 50)	4,193.6	–0.8	+1.8	+4.3
Austria (ATX)	4,483.1	+1.1	+0.4	+2.9
Belgium (Bel 20)	4,213.1	+1.0	–4.0	–1.6
France (CAC 40)	5,520.0	nil	–0.4	+2.1
Germany (DAX)*	7,439.2	–0.8	+12.8	+15.6
Greece (Athex Comp)	4,812.6	+1.2	+9.5	+12.3
Italy (S&P/MIB)	39,492.0	–0.2	–4.7	–2.3
Netherlands (AEX)	510.8	–0.7	+3.1	+5.7
Spain (Madrid SE)	1,562.3	–1.1	+0.5	+3.0
Czech Republic (PX)	1,761.0	+1.6	+10.8	+12.8
Denmark (OMXCB)	465.7	–0.8	+9.8	+12.7
Hungary (BUX)	26,816.7	+1.9	+7.9	+7.5
Norway (OSEAX)	529.0	–0.9	+5.3	+10.8
Poland (WIG)	59,960.7	+2.3	+18.9	+21.7
Russia (RTS, $ terms)	1,871.5	+1.0	–4.6	–2.6
Sweden (Aff.Gen)	381.2	+0.2	+4.3	+2.8
Switzerland (SMI)	8,727.8	+0.2	–0.7	+0.4
Turkey (ISE)	48,082.2	+2.6	+22.9	+30.6
Australia (All Ord.)	6,101.4	+1.7	+8.1	+10.8
Hong Kong (Hang Seng)	23,020.6	+3.0	+15.3	+14.8
India (BSE)	14,993.0	+5.2	+8.7	+17.7
Indonesia (JSX)	2,134.9	+3.5	+18.2	+13.2
Malaysia (KLSE)	1,263.7	+0.7	+15.3	+16.8
Pakistan (KSE)	12,228.1	–0.8	+21.8	+22.4
Singapore (STI)	3,334.7	+0.4	+11.7	+12.4
South Korea (KOSPI)	1,826.2	+3.8	+27.3	+25.4
Taiwan (TWI)	8,643.3	+1.8	+10.5	+9.2
Thailand (SET)	792.0	+1.0	+16.5	+22.1
Argentina (MERV)	2,045.7	+1.9	–2.1	–5.2
Brazil (BVSP)	52,734.0	+1.9	+18.6	+25.7
Chile (IGPA)	14,462.7	+0.6	+16.9	+19.1
Colombia (IGBC)	10,527.8	+1.2	–5.7	–0.8
Mexico (IPC)	29,710.8	+1.5	+12.3	+9.9
Venezuela (IBC)	39,700.8	–1.6	–24.0	+18.3
Egypt (Hermes)	68,348.8	+1.5	+11.5	+12.2
Israel (TA-100)	1,043.9	+1.6	+13.3	+14.7
Saudi Arabia (Tadawul)	8,227.0	+1.7	+3.7	+3.7
South Africa (JSE AS)	27,601.0	+1.3	+10.8	+7.7
Europe (FTSEurofirst 300)	1,498.5	–0.5	+1.0	+3.5
World, dev'd (MSCI)	1,537.0	+0.3	+3.6	+3.6
Emerging markets (MSCI)	1,047.9	+3.0	+14.8	+14.8
World, all (MSCI)	384.6	+0.6	+4.6	+4.6
World bonds (Citigroup)	687.8	+0.7	+4.5	+4.5
EMBI+ (JPMorgan)	410.3	+1.0	+0.7	+0.7
Hedge funds (HFRX)	1,296.5	+0.2	+1.6	+1.6
Volatility, US (VIX)	23.8	22.9	11.6	(levels)
CDSs, Eur (iTRAXX)†	46.3	+3.2	+98.5	+103.5
CDSs, N Am (CDX)†	69.8	+8.8	+108.7	+108.7
Carbon trading (EU ETS) €	0.07	nil	–98.9	–98.9

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

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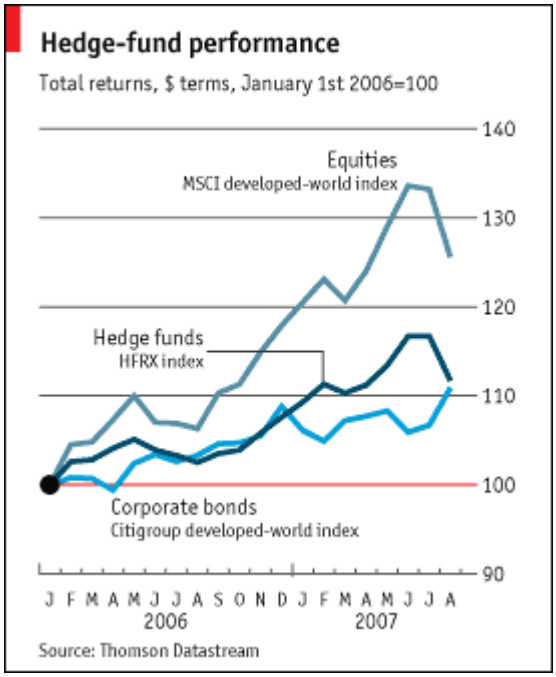
Hedge-fund performance

Aug 30th 2007
From The Economist print edition

Infographics



Hedge-fund investors have enjoyed only modest returns since the beginning of last year, according to the Hedge Fund Research (HFR) index, a closely watched performance measure. Total returns to investable hedge funds were just 11.7% between January 2006 and the beginning of August this year, since when upheavals in financial markets have been setting fund managers a stiff test. Returns to relatively safe investments such as rich-country corporate bonds were only marginally less rewarding. Global equities outperformed both corporate bonds and hedge funds, despite a slump during July this year. Investors in developed-world stockmarkets saw returns of more than 25% in the period covered.

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